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BEFORE THE

FEDERAL ENERGY REGULATORY COMMISSION

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IN THE MATTER OF: : Docket Number

ELECTRICITY MARKET DESIGN AND STRUCTURE : RM01-12-000

- - - - - x Docket Numbers

PJM INTERCONNECTION, L.L.C. : RT01-2-001

ALLEGHENY ELECTRIC COOPERATIVE, INC. : RT01-2-002

ATLANTIC CITY ELECTRIC COMPANY : RT01-2-003

BALTIMORE GAS & ELECTRIC COMPANY :

DELMARVA POWER & LIGHT COMPANY :

JERSEY CENTRAL POWER & LIGHT COMPANY :

METROPOLITAN EDISON COMPANY :

PECO ENERGY COMPANY :

PENNSYLVANIA ELECTRIC COMPANY :

PPL ELECTRIC UTILITIES CORPORATION :

POTOMAC ELECTRIC POWER COMPANY :

PUBLIC SERVICE ELECTRIC & GAS COMPANY :

UGI UTILITIES, INC. :

- - - - - x Docket Number

ALLEGHENY POWER : RT01-10-000

- - - - - x

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1	AVISTA CORPORATION	:	Docket Number
2	MONTANA POWER COMPANY	:	RT01-15-000
3	NEVADA POWER COMPANY	:	
4	PORTLAND GENERAL ELECTRIC COMPANY	:	
5	PUGET SOUND ENERGY, INC.	:	
6	SIERRA PACIFIC POWER COMPANY	:	
7	- - - - - x		Docket Number
8	SOUTHWEST POWER POOL, INC.	:	RT01-34-000
9	- - - - - x		
10	AVISTA CORPORATION	:	Docket Number
11	BONNEVILLE POWER ADMINISTRATION	:	RT01-35-000
12	IDAHO POWER COMPANY	:	
13	MONTANA POWER COMPANY	:	
14	NEVADA POWER COMPANY	:	
15	PACIFICORP	:	
16	PORTLAND GENERAL ELECTRIC COMPANY	:	
17	PUGET SOUND ENERGY, INC.	:	
18	SIERRA PACIFIC POWER COMPANY	:	
19	- - - - - x		
20	GRIDFLORIDA, LLC	:	Docket Number
21	FLORIDA POWER & LIGHT COMPANY	:	RT01-67-000
22	FLORIDA POWER CORPORATION	:	
23	TAMPA ELECTRIC COMPANY	:	
24	- - - - - x		

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1	CAROLINA POWER & LIGHT COMPANY	:	Docket Number
2	DUKE ENERGY CORPORATION	:	RT01-74-000
3	SOUTH CAROLINA ELECTRIC & GAS COMPANY	:	
4	GRIDSOUTH TRANSCO, LLC	:	
5	- - - - -	x	Docket Number
6	ENTERGY SERVICES, INC.	:	RT01-75-000
7	- - - - -	x	Docket Number
8	SOUTHERN COMPANY SERVICES, INC.	:	RT01-77-000
9	- - - - -	x	
10	CALIFORNIA INDEPENDENT SYSTEM OPERATOR	:	Docket Number
11	CORPORATION	:	RT01-85-000
12	- - - - -	x	Docket Numbers
13	BANGOR HYDRO-ELECTRIC COMPANY	:	RT01-86-000
14	CENTRAL MAINE POWER COMPANY	:	RT01-86-001
15	NATIONAL GRID USA	:	RT01-86-002
16	NORTHEAST UTILITIES SERVICE COMPANY	:	
17	THE UNITED ILLUMINATING COMPANY	:	
18	VERMONT ELECTRIC POWER COMPANY	:	
19	ISO NEW ENGLAND, INC.	:	
20	- - - - -	x	Docket Number
21	MIDWEST INDEPENDENT SYSTEM OPERATOR	:	RT01-87-000
22	- - - - -	x	Docket Number
23	ALLIANCE COMPANIES	:	RT01-88-000
24	- - - - -	x	

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1	NSTAR SERVICES COMPANY	:	Docket Number
2		:	RT01-94-000
3	- - - - -	x	Docket Numbers
4	NEW YORK INDEPENDENT SYSTEM OPERATOR, INC.:		RT01-95-000
5	CENTRAL HUDSON GAS & ELECTRIC CORPORATION :		RT01-95-001
6	CONSOLIDATED EDISON COMPANY OF NEW YORK, :		RT01-95-002
7	INC.	:	
8	NIAGARA MOHAWK POWER CORPORATION	:	
9	NEW YORK STATE ELECTRIC & GAS CORPORATION :		
10	ORANGE & ROCKLAND UTILITIES, INC.	:	
11	ROCHESTER GAS & ELECTRIC CORPORATION	:	
12	- - - - -	x	Docket Number
13	PJM INTERCONNECTION, L.L.C.	:	RT01-98-000
14	- - - - -	x	Docket Numbers
15	REGIONAL TRANSMISSION ORGANIZATIONS	:	RT01-99-000
16		:	RT01-99-001
17		:	RT01-99-002
18		:	RT01-99-003
19	- - - - -	x	Docket Number
20	REGIONAL TRANSMISSION ORGANIZATIONS	:	RT01-100-000
21	- - - - -	x	Docket Numbers
22	ARIZONA PUBLIC SERVICE COMPANY	:	RT02-1-000
23	EL PASO ELECTRIC COMPANY	:	EL02-9-000
24	PUBLIC SERVICE COMPANY OF NEW MEXICO	:	

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1 TUCSON ELECTRIC POWER COMPANY :

2 WESTCONNECT RTO, LLC :

3 - - - - - x

4 ASSIGNMENT OF RTO

5 CHARACTERISTICS AND FUNCTIONS

6
7 Commission Meeting Room 2-C
8 Federal Energy Regulatory
9 Commission
10 888 First Street, N.E.
11 Washington, D.C.
12

13 Tuesday, February 19, 2002
14

15 The above-entitled matter came on for technical
16 conference, pursuant to notice, at 9:10 a.m., Scott Miller,
17 Director of the Division of Market Development (OMTR), for
18 the Federal Energy Regulatory Commission, presiding.
19

20 BEFORE COMMISSIONERS:

21 CHAIRMAN PAT WOOD, III
22 COMMISSIONER LINDA KEY BREATHITT
23 COMMISSIONER NORA MEAD BROWNELL
24 COMMISSIONER WILLIAM L. MASSEY
25

1 APPEARANCES:

2 REAMING CONTROL AREA FUNCTIONS

3 DON BENJAMIN, Director of Operations, NERC

5 ALLOCATION OF RTO FUNCTIONS - NATIONAL DEBATE

6 NICK WINSER, Senior Vice President, National Grid

7 LAURA MANZ, Director - Interregional Transmission,

8 PSE&G

9 LARRY RUFF, Independent Consultant

10 MIKE STUART, Vice President, Legal and Regulatory

11 Affairs, Wisconsin Public Power, Inc.

12 SUE KELLY, Attorney, Law Firm of Miller, Balis & O'Neil

13 JANE MUDGETT, Assistant Manager, Energy Marketing &

14 Trading, Williams

16 ALLOCATION OF RTO FUNCTIONS - MIDWEST

17 WILLIAM PHILLIPS, Director of Operations, Midwest ISO

18 JOE WELCH, President, International Transmission Company

19 AUDREY ZIBELMAN, Vice President, Transmission XCEL Energy

20 (TRANSLink)

21 JOSE DELGADO, President and CEO, American Transmission Co.

22 PAUL HALAS, Special Counsel, National Grid USA

23 (Alliance Companies)

24 PAUL McCOY, Senior Vice President, Transmission Systems

25 Operations, Trans-Elect, Inc.

1 APPEARANCES (CONTINUED) :

2 ALLOCATION OF RTO FUNCTIONS - WEST

3 CHARLES REINHOLD, Project Manager, WestConnect RTO, LLC

4 DAVID RUBIN, Swidler, Berlin, Shereff, Friedman, LLP

5 (California ISO)

6 CAROLYN COWEN, TransConnect, LLC

7 JESSICA YOULE, Senior Attorney, Salt River Project

8
9 ALLOCATION OF RTO FUNCTIONS - EAST

10 MICHAEL KORMOS, General Manager of Operations, P.J.M.

11 KEVIN KIRBY, Vice President of Market Operations at

12 ISO-New England

13 AMIR SHALABY, Manager of Regulatory and Government

14 Affairs, Ontario IMO

15 CHRIS FALON, Manager of Transmission Planning, Duke

16 Energy Company (Grid South)

17 FRANK GALLAHER, Senior Vice President, Entergy Corporation

18 (SE Trans)

19 P.G. (BRAD) PARA, Director of Legislative Affairs,

20 Jacksonville Electric Authority (SE Trans)

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22
23
24
25 -- continued --

1 APPEARANCES (CONTINUED) :

2 SHELTON M. CANNON, Deputy Director
3 Office of Markets, Tariffs and Rates
4 Federal Energy Regulatory Commission
5

6 KEVIN A. KELLY, Director
7 Policy Innovation and Communication
8 Federal Energy Regulatory Commission
9

10 BRUCE W. NEELY, ESQ.
11 LeBoeuf, Lamb, Greene & MacRae
12 1875 Connecticut Avenue, NW
13 Washington, DC 22302
14 On behalf of National Grid USA
15
16

17 ALSO PRESENT:

18 DAVID HOFFMAN, Court Reporter
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P R O C E E D I N G S

(9;10 a.m.)

MR. MILLER: Can we get folks to start sitting down. We're already a little bit late. We'd like to get started as soon as possible.

(Pause.)

MR. MILLER: Good morning. I'd like to welcome you all to FERC for our conference. It's officially known as the Assignment of RTO Characteristics and Functions. Internally, it's known as the slice-and-dice conference. Before we get with our first panel, I wanted to briefly go over how the day is going to hopefully be organized.

First of all, I'm Scott Miller from the Office of Markets, Tariffs and Rates, and with me are various other luminaries from the Office of Markets, Tariffs and Rates, but the most important luminary is the Chairman over to my right. Anyway, the work we're going to be doing today is first we want to be hearing from NERC briefly on the efforts that they've done with regard to control areas and defining control areas. That's been a subject that has been discussed, it's been a topical issue over the last couple of years and obviously is the one thing that is critical to figuring out how we're going to organize RTOs with ITCs as part of them. That will be Don Benjamin who will be giving us hopefully about a 30-minute presentation on that. Then

1 we'll go towards what we'll call a national panel of folks
2 to discuss the sort of national issues.

3 If you haven't gotten, there should be in the
4 back a matrix which represents our attempt to try to
5 organize the thought process along these lines. Originally
6 we were going to make this a homework assignment, and
7 everybody couldn't leave the room until they turned it in
8 and filled it in. But we decided not to do that. All we
9 are asking for you to do is to help us fill this out through
10 the discussions today. And this is our attempt to take
11 Order 2000 functions and characteristics, as well as other
12 commentary, and as Shelton has noted, we've shamelessly
13 plagiarized from EEI and NERC, to try to fill this thing
14 out. But recognizing that we may have missed, if there's
15 something important in terms of organizing the
16 characteristics of an RTO that we've missed, please by all
17 means point that out. But this is an attempt to just sort
18 of organize our thoughts.

19 Following the national panel, which folks will
20 have 15 minutes on that panel to discuss their issues, we'll
21 then break for lunch and then go into panels to discuss any
22 possible unique characteristics for broad geographic regions
23 trying to see where we can standardize and see if there are
24 issues that need to be handled separately depending on
25 regional characteristics.

1 With that, Shelton do you have anything to add on
2 that?

3 MR. CANNON: Just one sort of procedural note.
4 We recognize we can't everybody that we might like to have
5 on one of these one-day technical conferences, so if others
6 in the audience and watching out in the hinterlands have
7 additional comments they want to submit, we'd like to try to
8 get them in by March 12th. We really do want to start
9 moving on the existing RT dockets that are in-house, at
10 least in terms of the independence and scope aspects of
11 those. If you hear something today that you agree with or
12 disagree with, and want to add some supplemental comments,
13 again please have them here by March 12th. Thanks.

14 MR. MILLER: Great, and with that, Don, the floor
15 is yours.

16 MR. BENJAMIN: Thank you very much. I appreciate
17 the invitation from the Commission and thanks to all of you
18 very, very much for having me down here.

19 (Slide.)

20 I also appreciate being on a panel of one I think
21 is the real smallest panel, and only hope I don't start
22 arguing with myself.

23 (Laughter.)

24 MR. BENJAMIN: And usually I'm standing up in
25 front of large groups of people that face me, so I apologize

1 for turning my back on everyone else in the audience out
2 there, but I understand we have the presentation up here on
3 the screen.

4 (Slide.)

5 Back in 1999, the NERC Operating Committee
6 actually had been realizing for several years before that
7 that the control area function was becoming unbundled in the
8 new environment. And the NERC operating policies that we've
9 had and actually were started back in the 1930s, some of
10 them go back that far when it comes to things like time
11 correction and coordinating interchange, but over the many
12 decades, those policies have sort of lost their focus as the
13 control area function on which the policies had been
14 designed sort of crumbled and got disaggregated into all
15 sorts of different directions. And so we knew we needed to
16 rewrite the operating policies. We didn't quite know how to
17 go about doing that and what we realized that eventually
18 that if we could go into the control area and look at the
19 functions that it performed and sort of dissect it and then
20 come up with a palate of all the different functions, then
21 we could write standards for those functions, and then roll
22 them up into whatever kind of organizations might form, ISOs
23 or RTOs, or transcos or whatever organization might evolve
24 over the future. So it had to be something that could be
25 used as, you know, indefinitely and into the future. We

1 didn't want to find ourselves in a case where we had
2 policies that didn't apply anymore.

3 So the operating committee formed a control area
4 criteria task force and again it had the words "control
5 area" because that's what we were really focusing on. Jim
6 Burt, who sits to my left here, was selected as the chairman
7 of that task force, and then we had people from all the
8 different industry segments.

9 (Slide.)

10 And up here on the screen I'll show you. I don't
11 have the people's names but I have organizations they came
12 from, and different colors represent different market
13 segments, IOUs and there's independents, there's a couple of
14 ISOs, coops. You'll recognize some merchants up there.
15 Canada was in there, the IMO is there. We had western area,
16 LCRA from Texas, and of course Jim being there as well. So
17 we had a good assortment of folks participate as well as a
18 lot of guests that would come to the meetings. We also had
19 two series of workshops, one in the spring of 2000 and one
20 in the fall of 2000, and about 300 people came to each of
21 those, so we had good participation and learned a lot. It
22 was a two-way street here. So we came back from those
23 workshops, made changes to our basic documents, and went on
24 there.

25 We published to white papers while these

1 workshops were going on on the Internet and got a lot of
2 public comments on that, so we think we had the public well
3 engaged. There are a lot of new concepts here. We weren't
4 restructuring corporations, we were defining functions. But
5 it was an interesting exercise to go through as people
6 realized all the different functions that they were
7 performing and didn't think of them as being separate. They
8 just said, oh, I'm a control area operator. Yeah, but you
9 really do all these different things. So it was really
10 quite an eye opener.

11 (Slide.)

12 So we unbundled the control area and as it shows
13 here on the screen, the control area of, you know, five
14 years ago just did everything. It was responsible for
15 keeping the transmission system reliable. Of course
16 everyone thinks of the load resource balance and the control
17 criteria that we have for that. The control area operator
18 got involved in interchange. He would talk to his
19 neighboring control areas and set up deals responsible for
20 providing transmission service for its own customers. They
21 would wheeling, you don't hear wheeling too much anymore,
22 but they would wheel through their system to others, and
23 they operated the generation, they probably owned it. And
24 they supplied the customers so, you know, there's the
25 typical vertically integrated control area that we had been

1 dealing with.

2 (Slide.)

3 And so the control area criteria task force took
4 all those functions all those functions and categorized them
5 into something that made a bit more sense, and came up with
6 what we call the functional model. And I'll just spend a
7 little bit of time on these boxes, I won't go into great
8 depth. We've got all the background documents and things
9 like that for you.

10 (Slide.)

11 But I'll start right here in the middle. These
12 are all the service functions and then these boxes here,
13 which normally are green, but I see up on the screen they
14 are sort of a bluish color, are merchant functions, and then
15 these are other operating functions down here along the
16 lower tier.

17 But the balancing authority, I'll start with that
18 is just that only function is to balance load with
19 resources, that's all it does. It doesn't manage the
20 transmission system, it doesn't do anything with wheeling.
21 It simply balances load with resources. And those resources
22 could be generation within that balancing area or it could
23 be interchange from other balancing areas. But every
24 generator, every intertransmission line, every customer, has
25 to be within a balancing area, within the meter boundaries

1 of a balancing area. And that's something we may want to
2 work with the Commission more on in setting those kinds of
3 boundary condition rules because we may need to put those in
4 NERC standards or maybe not. We're not sure but we want to
5 talk to you more about that. But there are some
6 relationships here that are very, very important for
7 accounting and balancing purposes.

8 (Slide.)

9 I'll come back to the interchange authority in a
10 second. The transmission service provider is really the
11 tariff administrator. This is the function that maintains
12 the OASIS site, that grants transmission reservations, that
13 calculates ATC. It does not operate the transmission
14 system, isn't responsible for transmission system
15 reliability. It's administering the tariff and granting
16 transmission service.

17 The interchange authority over here is really a
18 new function that we defined and control areas sort of had
19 been doing this but may not have thought about it as a
20 separate function. The interchange authority manages
21 bilateral deals. Today, if you want to sell power, let's
22 say, from Florida Power & Light Company up to the IMO in
23 Canada, you've got to go through a number of control areas,
24 and that interchange schedule gets scheduled in a daisy
25 chain fashion from let's say FPL to Southern and then from

1 Southern up into the VACAR area and up into PJM and up into
2 New York and then to IMO. And what the model will do for us
3 is allow a single interchange authority to schedule that
4 interchange directly from the Florida Power & Light
5 balancing area, assuming that's what it becomes, to the IMO
6 balancing area, and not have to be scheduled in and out
7 through the other control areas.

8 Now there will still have to be a transmission
9 path, a continuous transmission path from Florida to Canada,
10 so it doesn't take away that requirement at all. But for
11 the scheduling of energy, the interchange authority allows
12 you to go directly from source to sink, and should make
13 accounting much easier. So that's the IA function.

14 (Slide.)

15 The planning authority, we're just now developing
16 the details of the planning authority. This model was
17 originally written as an operations model but now we've got
18 the planning element into it also. Essentially, the
19 planning authority is responsible for doing the planning
20 studies and coming up with the transmission expansion plans
21 for it's area, and there are also boundary relationships
22 here between the planning authority and up here the
23 reliability authority. That has some hierarchy in it. It
24 is ultimately responsible for the reliable operation of the
25 system. It would be involved with mitigating congestion

1 management if market solutions don't work to do that. I
2 would also tell the balancing authority the balance, if it's
3 out of balance. So the RA has a good bit of authority in
4 its list of attributes.

5 (Slide.)

6 And today we think of these as the security
7 coordinators that we have around the system. Let me go
8 across the merchant functions. The generator, which is
9 pretty obvious, the load serving entity that serves the
10 load, the purchasing selling entity which are the merchants
11 that set up the deals. Now going into our standards, we may
12 not see a lot of standards for the generator and the load
13 serving entity and the purchasing selling entity. What we'll
14 probably see are a lot of contractual relationships between
15 the balancing authority and the generator to procure
16 ancillary services or between the transmission operator and
17 the generator for purchasing reactive power.

18 Most of the initial standards we're working on
19 right now will be aimed at the RA, the reliability authority
20 function, the interchange authority, the balancing
21 authority, the transmission service provider, and probably
22 down here the transmission operator who actually runs the
23 transmission system, the transmission owner who owns the
24 wires, and the transmission owner would, for example, set
25 equipment limits and would hand equipment limit list off to

1 the transmission operator who operates the system within
2 those limits, and would also tell the RA what those limits
3 are on its equipment. The RA has a very wide area
4 perspective, however, and would look at things like
5 operating security limits by looking at transfers across
6 wide parts of the grid.

7 And finally the distribution provider, which we
8 have very few standards for, probably would be providing
9 data on how much load could be shed and things like that.

10 (Slide.)

11 Also in the model, we have the compliance
12 monitor, whoever that would be. It could be the regional
13 councils, it could be NERC, and we have a standard-setting
14 organization which we're showing NERC on the model.

15 So those are the basic building blocks of the
16 model and so we took the control area and unbundled it and
17 came up with building blocks for writing standards, and we
18 think these same building blocks could be used for assigning
19 a lot of functions to the RTOs.

20 (Slide.)

21 Now it's impossible to read this, but just to
22 show that we have schematic diagrams, I know Chairman Wood
23 has seen this up close, but we sort of started with the
24 ERCOT model and the schematic diagram for ERCOT, and then
25 built on that. And the reason we did this was more than

1 just an exercise in how well we could all use Visio.

2 (Laughter.)

3 MR. BENJAMIN: But more it was to make sure that
4 we understood relationships between boxes, so defining the
5 boxes is one thing but understanding the relationships and
6 the functional relationships between the boxes is something
7 else. So, you know, if once we get into this, we also have
8 to delve into what these relationships are, and we have
9 those defined. And again this is what we'll be using to
10 write standards on. You know, it's not just what the
11 functions do, but how they interoperate with each other.

12 (Slide.)

13 The time frames that we're talking about here, if
14 we look at sort of the continuum of time frames of making
15 deals over here in the commercial or the market area all the
16 way to providing some kind of market interface to where we
17 get the deals to go physical, and then the physical
18 implementation of those deals, if that's our time frame
19 here.

20 (Slide.)

21 And the functional model -- oops, didn't mean to
22 flip there -- the functional model covers aspects of the
23 market interface and certainly the physical implementation
24 of deals that are set up over here in the marketplace. But
25 the functional model itself doesn't define things like on

1 the books deals that marketers make with each other, how
2 they do their financial tradings, and how they acquire
3 resources. They do that on their own, and that's outside
4 the market. The market doesn't deal with those aspects of
5 the marketplace. The model doesn't deal with those aspects
6 of the marketplace.

7 (Slide.)

8 Just to show you how you could roll up functions
9 into organizations here is just in a generic RTO that would
10 be the RA and the transmission service provider, just a very
11 simple RTO. You probably have more functions than that in
12 mind, but this could be an RTO possibly.

13 Here's one that's a bit more complicated, an RTO
14 that's the RA so it has the ultimate reliability authority,
15 operates the transmission system, serves as the interchange
16 authority, so in other words it manages deals either in and
17 out of its system or the interchange authority actually
18 could be anybody with a desk and a telephone that manages
19 interchange across the interconnection. It doesn't have to
20 be associated with an organization.

21 This particular RTO could be the balancing
22 authority as well, and it would probably be the transmission
23 service provider.

24 (Slide.)

25 Here's ERCOT. ERCOT is the RA, they're the

1 planning authority, they're the interchange authority, they
2 are now the balancing authority. As of about the middle of
3 last year, they weren't. Before then there were ten control
4 areas within ERCOT. Now ERCOT does the balancing for the
5 entire area, and they're the transmission service provider.

6 (Slide.)

7 Here's a midwest ISO serving the RA, the planning
8 authority role, possibly an interchange authority. Right
9 now, they are serving as sort of an interim function called
10 a scheduling agent that we've made provisions for in the
11 current NERC operating policies, but that's not part of the
12 model and transmission service provider.

13 Yes, there will still be control areas. NERC
14 isn't going to disallow control areas, there'll still be
15 control areas out there, there will still be vertically
16 integrated organizations, municipal, possibly coops, federal
17 entities, they'll still be control areas. A control area
18 could be serving as a balancing authority. I would expect
19 them to be. They may operate generation. They could be an
20 interchange authority just as they always have been. The
21 model still accommodates control areas.

22 (Slide.)

23 So to implement the model, we've got to do a
24 couple of things. We have to rewrite our operating
25 standards that say the control area shall. Now it'll say

1 things like the balancing authority shall ensure that load
2 and generation, et cetera, et cetera.

3 And we also need to certify all these
4 organizations out there, so if you're going to be a BA, a
5 balancing authority, or an RA, or an IA, or a TSP, we want
6 to come audit you and make sure that you can do all the
7 things that it takes to do to serve those functions. So
8 we're working on those criteria, those function criteria
9 right now. They are really part of our new organization
10 standards. So we take the model and we rewrite the
11 standards, we certify all of the functions, and we come up
12 with a NERC organization standards. And we're starting that
13 now. We just issued our first standards authorization
14 request earlier this month, and we have more coming out this
15 year.

16 (Slide.)

17 And just to show how these map, I took some
18 liberties, Kevin, with the table that's in the back of the
19 agenda, and I hope you don't mind. But I wanted to try this
20 exercise by taking the RTO function and see how it mapped
21 over to the functional model. The RA obviously maps
22 directly. Physically operate, that would be the function of
23 the transmission operator. Implement curtailments would be
24 the RA function. Performing impact studies, the planning
25 authority for long-term studies, the RA for short-term

1 studies. Determining equipment ratings, that's the
2 transmission owner that does that. Managing congestion
3 would be the reliability authority, also addressing parallel
4 flows.

5 Short-term reliability implementing interchange
6 would be the interchange authority. Redispatching
7 generation would be the RA or the BA. Approving
8 transmission maintenance would be the RA. That's approving
9 the maintenance schedule.

10 Emergency plans would be the responsibility of
11 the RA. Administering the tariff would be under the purview
12 of the transmission service provider. Processing
13 interconnection requests I think would come under the
14 planning authority. It looks like if I read between the
15 lines of the planning authority function, I could see that
16 in there. We may need to clarify that some.

17 (Slide.)

18 For OASIS, TTC and ATC, maintaining the OASIS
19 site would be the transmission service provider, calculating
20 transmission transfer capability would be the planning
21 authority. ATC calculation is the TSP. Inputs would be
22 coming from, for TTC and ATC, would be coming from the
23 transmission owner and the RA.

24 (Slide.)

25 Providing ancillary services would be the

1 balancing authority. The balancing authority would not
2 necessarily run the balancing market though. I wanted to
3 make that distinction. The balancing authority would be
4 procuring ancillary services. Most of those services come
5 from the generator, some from the transmission provider, so
6 it's the BA that would do that function.

7 And then finally on the planning side, the RTO
8 function for developing the plan and coordinating the plan
9 falls under the planning authority, and that's it. That's
10 how the functional model works from a very high overview and
11 how it would fit into the slicing and dicing that the
12 Commission is considering for the RTOs. Questions?

13 MR. KELLY: Maybe just to start with a softball
14 question that I think I know the answer to.

15 MR. BENJAMIN: Oh, thank you, Kevin.

16 MR. KELLY: Just to clarify. Is there any policy
17 content in what you've presented, either FERC policy or NERC
18 policy, or is this just a new vocabulary so we can develop
19 policies with clear meanings?

20 MR. BENJAMIN: It's the latter. I mean, we're
21 starting to write the policies now. But when we develop the
22 model -- and I'll ask Jim to help me with this if I've missed
23 something -- when we were developing the model, we certainly
24 thought about the kinds of standards we would need. But we
25 also thought about the kind of contracts that the industry

1 would need and the kind of interconnection agreements that
2 the industry would need. So we've thought of those three
3 kinds of documents that will be needed out there, but
4 there's no policy implied in the model. Is there anything
5 else on that?

6 MR. KELLY: No, that's great.

7 MR. BENJAMIN: Was that the answer that you
8 thought? Okay.

9 MR. KELLY: Yes.

10 (Laughter.)

11 MR. BENJAMIN: Okay.

12 CHAIRMAN WOOD: The main reason I was interested,
13 other than to see your smiling faces again, but for them to
14 come here was I think to let the world know that a lot of
15 this discussion is going on and has been going on in a
16 different format for different reasons, I think ultimately
17 we want to make sure that we harmonize with. When I got
18 briefed by Kevin and some of our staff about this project
19 going on at NERC, and of course I knew Jim from way back and
20 knew how important this unbundling of what exists today was
21 to setting up the market that I was last involved with.

22 To do it in that methodology was very
23 constructive and probably saved I think a lot of the gelling
24 about that we've been doing on this slice and dice issue at
25 the policy level, and to kind of you know nerd it down --

1 excuse me guys, but that's a compliment coming from me -- to
2 nerd it down and then kind of build it back up is I think
3 helpful, and so if we could get a copy of what you have --

4 MR. BENJAMIN: You already have it, sir.

5 CHAIRMAN WOOD: Good. I want to kind of keep
6 that with me today as we go through the slice and dice
7 functions. Particularly your last few pages were very
8 helpful and I would be curious to know for the panelists on
9 the rest of the day if you all agree or disagree with how
10 Don mapped those over to the slice and dice functions that
11 are on Attachment B of today's notice. So thank you all for
12 that. I hope for all of us their nomenclature informs what
13 we're doing, and that we can shamelessly poach from your
14 hard work, so we're all kind of coming at it from the same
15 direction.

16 MR. BENJAMIN: We would be flattered. Thank you
17 very much.

18 MR. MILLER: Shelton?

19 MR. CANNON: I had one other question. Assuming
20 that we in our standardized market design that one of the
21 things that RTOs do is to run a balancing market, I'm
22 interested in how this balancing authority sort of interacts
23 with that market operation. Can you help me a little bit on
24 that?

25 MR. BENJAMIN: The balancing authority would be

1 buying services, as I understand how a balancing market
2 works, and I don't understand a lot about it. I have to
3 tell you that up front, Shelton, but the balancing authority
4 could buy those services, or anybody I guess could buy those
5 services and then hand them over to the balancing authority
6 to use to balance the load and generation in that area.

7 The BA serves just a balancing function. It's
8 simply dispatching generation that it has contracted for for
9 following load, in other words, load following services,
10 frequency response services, operating reserves, things like
11 that, so it should have that pallet of services available to
12 it, and I'm assuming it could do that from a balancing
13 market or to individual generators and write contracts to do
14 that. But what NERC would do is have a standard for a
15 balancing authority that says "you shall balance, all the
16 time." Your area control error shall be zero or close to
17 it. And there'll be several bandwidths and measures and
18 things like that. The NERC standard wouldn't tell the
19 balancing authority how to do that, it would just say
20 you've got to balance within this tolerance.

21 The balancing authority then would go to
22 generators, the balancing market, whatever, and buy whatever
23 services are needed, and I guess the loads would do that
24 too.

25 And Jim, do you have something to add on that in

1 the balancing market?

2 MR. BURT: I think there's three ranges of
3 possibility. One would be where the balancing authority is
4 a pool operator, and there you have the full spectrum of
5 balancing through pool input, pool bids. The other would be
6 where the balancing authority is really in a bilateral
7 market and there may be an external market for regulation
8 and that type thing, or there could be as small, thin market
9 within the balancing authority to run that, so it could be a
10 combination of any of those that the BA is responsible for
11 from very little to full responsibility depending on how the
12 market's structured and how your business protocols are set
13 up for those regulation services and that type thing.

14 MR. BENJAMIN: But there's nothing I've seen in
15 the model that would preclude the balancing authority doing
16 its thing and having a balancing market. I think they're
17 related but one doesn't interfere with the other.

18 CHAIRMAN WOOD: Back to your process, the slide
19 that had the arrows coming into the ultimate timeline wise
20 where are you as far as the organization into unbundling the
21 control area functions, specking out what they do?

22 MR. BENJAMIN: That's a good question. My guess
23 is that we'll be working very diligently this year on
24 posting a number of standards and these start off as
25 standard. They're sort of the skeleton of the standard in

1 which case that will post for the industry to give us
2 comments on, and from that we'll figure out does the
3 industry really want this to be a standard or not.

4 For example, the balancing authority, we have a
5 standards request for balancing load and generation
6 following the control performance standards pretty much the
7 way we've been doing it. You have to have a place to start
8 so we started with that. If the industry says, yeah, that
9 looks like that should become a standard, then we'll go into
10 that drafting process and come up with the details. That
11 would probably take about 12 months I'm thinking to run that
12 through the whole process. It's a complicated process
13 because we want, at the end, to get industry buy-in, so you
14 have to run it through several iterations, post it, get
15 comments, resolve negative positions, post it again, and
16 bring everybody along so when it comes out at the end, we
17 have something that everybody has ownership of and we don't
18 end up with a lot of folks saying, I never agreed to that
19 and you never addressed my negative concerns and stuff like
20 that. So the process is moving from a committee process to
21 an industry process and that's time consuming. So I would
22 say the first standard is going to come out probably in
23 about 12 months, then they'll keep coming out beyond that.
24 My guess is right now that in 2003, we ought to be putting
25 new organization standards in place. We have to certify the

1 organizations. That's going to be quite a task because
2 there could be hundreds, a hundred balancing authorities out
3 there, there could be a lot of interchange authorities out
4 there. We've got to go make sure that they know what
5 they're doing.

6 CHAIRMAN WOOD: Does the interchange authority
7 need to be, is it like an air traffic controller? Or can
8 you have multiple-like schedule coordinators?

9 MR. BENJAMIN: You could have lots of them. It's
10 anyone that would like to perform that service. Personally,
11 I would think, well, RTOs will likely want to do that but
12 anybody could. There could be one for the world, there
13 could be 50, so we really didn't have any number of limits
14 in mind on those. I think the numbers will just turn out to
15 be whatever they are.

16 COMMISSIONER MASSEY: Don, in your evaluation,
17 and I've missed the first part of your presentation,
18 although you've given me one privately, so I have basic
19 understanding of what you're saying here. Did you make any
20 judgments about which of these functions should be carried
21 out by an entity that's independent of merchant interest, or
22 do you leave that to us?

23 MR. BENJAMIN: Yes, we did. We did consider it
24 and yes we are going to leave it to you.

25 (Laughter.)

1 COMMISSIONER MASSEY: That's comforting, but do
2 you have a recommendation?

3 MR. BENJAMIN: A recommendation? Oh, all right,
4 yes. We even published one as a matter of fact. I'm glad
5 you asked the question. What we thought was our thinking
6 was this is the control area criteria task force thought for
7 sure the RA, the reliability authority, had to be
8 independent. I'm not going to define what independent is
9 right now. We'll just use the "I" word and say independent
10 for obvious reasons. They can't favor their own
11 transactions, they couldn't favor their own generation, they
12 have to be independent from that. So the transmission
13 service provider also should be independent. That's the
14 tariff administrator for obvious reasons as well so it's not
15 favoring any customers when it provides transmission
16 service.

17 The interchange authority we felt could be either
18 way. It could be an independent function; people saw the
19 advantage in that because you wouldn't want an interchange
20 authority that was favoring bilaterals from its own
21 generation. On the other hand, we felt if there was a
22 merchant of their own generation who wanted to be an IA, he
23 probably wouldn't garner many customers who would want his
24 service, other than he would do his own interchange
25 authority service for his own generation. Others may not

1 wish to come to him, or they might want to. So we felt
2 ambivalent about that. It could be either independent or
3 not. The balancing authority was interesting because the
4 task force felt the BA should be independent because when it
5 procures ancillary services, it didn't think it would be
6 right for the BA to favor it's own generation, so we thought
7 the BA should be independent.

8 And we just met a firestorm on that one because
9 there are a lot of control areas out there, municipal and
10 federals and others, who are not going to unbundle, they're
11 not going to separate and they're not going to be
12 independent, and they just told us that absolutely. So we
13 said, fine, you know, that was our recommendation but NERC
14 isn't going to push the independence issue.

15 The only thing we are doing is when it comes to
16 the RA, we are asking the RAs, the security coordinators
17 today, to explain how they operate independently and how
18 they will be working with or become a part of RTOs in the
19 near future, because as the RTOs form, that will take care
20 of a lot of the independence issues right there. When the
21 RTOs assume the RA function, that will take care of it but
22 not in every case. There will be some RAs that are not part
23 of RTOs so we are looking at that and the others, the
24 recommendations are there but we're not pursuing them.

25 Sorry for the long answer.

1 COMMISSIONER MASSEY: It's a good answer. Thank
2 you.

3 MR. MILLER: We are particularly interested with
4 regard to the RA function because it's one that we've got
5 different methods for where PJM essentially seems to be the
6 RA but they obviously there's a MAC consultation and there's
7 a separate authority in New York, for example, but the
8 Midwest RTO seems like it's going to perform the function
9 for most of that region, recognizing that some entities will
10 still try to claim some of that authority.

11 If there are no other questions, what we need to
12 do is to try to maintain some semblance of schedule is to
13 move to the next panel.

14 Don, I want to thank you all for doing this, and
15 if the next panel could come up, and we'll get started right
16 away.

17 (Pause.)

18 MR. MILLER: That's Nick Winsor, Laura Manz,
19 Larry Ruff, Mike Stuart, Sue Kelly, and Jane Mudgett.
20 Welcome to our second panel. Paul Savage, who was supposed
21 to be here, unfortunately was in an auto accident. I hope
22 it wasn't too serious. So he's not joining us. But this is
23 an important panel. Most people tend to think of the
24 assignment of characteristics and functions as a national
25 issue and we'll get down to areas where that may or may not

1 be the case, but I think what we're looking for from this
2 panel and the variety of participants is to give us a handle
3 on what we're trying to struggle with from a standard market
4 design approach, which we're in the midst of doing, as well
5 as those things that we need to make some calls on right
6 now. The bottomline is that we want to make sure that the
7 market functions as seamlessly as possible but not take away
8 from possible innovations that we could get from ITCs and
9 other entities.

10 With that, why don't we start with Nick Windsor.
11 I think each of the panelists has 15 minutes. We'd like to
12 keep to that so we can have time for some questions and then
13 get out for our lunch break on time.

14 Nick?

15 MR. WINSER: Thank you, good morning. Thank you
16 very much for the opportunity to address you this morning.
17 I'm honored to be able to contribute on such an important
18 issue. I thought long and hard about what best value I
19 could bring to this panel. I felt the right thing to do was
20 to speak from my experience as a transmission engineer, and
21 try to focus the debate on what I think is important
22 to this issue which is, yes, there's a lot of excellent
23 discussion on pricing. But let me just add something to
24 that and something which I believe is not paid enough
25 attention to. There are real physical assets out there and

1 we need to get stuff done on those assets differently. We
2 need to change the culture of running transmission in this
3 country, in my view.

4 My experience in this is hopefully useful. I was
5 the designer and architect of the congestion management
6 arrangements in the U.K. I ran the whole control function
7 in England and Wales and reduced the number of control areas
8 from five to one during that period.

9 I was responsible, before coming to the states
10 about a year ago, for all of the transmission assets, the \$6
11 billion of assets in England in Wales from design purchase,
12 builder and operator, so I hope I can bring an insight on
13 the physical end as to what needs to be done by engineers.

14 There seems to be widespread agreement on the
15 challenges facing the transmission sector in the U.S. I've
16 taken obviously great interest in that. Low investment, and
17 indeed falling investment, and low efficiency, and I'll talk
18 about efficiency a bit more as we go through.

19 When looking for a solution to this, I think
20 there's a real danger that we regard transmission as
21 entirely passive. That leads to a mindset which is about
22 what can we do to build new lines. But, you know, building
23 new lines, and I've got the scars to prove it, building new
24 lines is very, very hard. Consents take a long time
25 everywhere. They're expensive, and there's always the danger

1 that those that don't want the lines built for their own
2 interests will be able to block the process or slow it down.
3 The environmental factors are huge now.

4 So I'm going to advocate to you the setting up of
5 fully functional ITCs, and I'll comment on what I mean by
6 that, but this is a way of getting real active management of
7 the transmission assets. It will be quick, it'll be a lot
8 cheaper, and it won't get bogged down in fractional
9 interests. This is the way that we will improve the
10 transmission system quickly. And you know I'm a
11 transmission engineer. I'm passionate about that. I have
12 heard some of you here speak very passionately about that so
13 forgive me if I get carried away here. But this isn't just
14 about the future of transmission. This is about the whole
15 success of the wholesale markets.

16 Without good transport, effective wholesale
17 markets are at best ineffective and at worst a waste of the
18 electricity consumer's money. I want to make a specific
19 point on that today which I don't think gets much
20 recognition. I'll be interested to hear what Larry has to
21 say on my engineer's analysis of this problem. Why is this
22 so crucial? What extra factor am I bringing in? Congestion
23 is the deadly poison to good wholesale markets. When we
24 talk about that we're thinking yes, that's all about
25 generators being locked up and isolated so that it commands

1 monopoly rents, but in my mind that isn't where the big
2 dollars are. The big dollars in this are about what's left
3 of the wholesale market, the bit that isn't locked up.

4 One of the unique things about electricity, and
5 it applies very much here, is that we have a very mixed
6 technology generator sector with very, very cheap
7 incremental costs of generation through to very expensive
8 costs from let's say nuclear through to expensive oil. That
9 means that that price demand curve is incredibly strung out,
10 and that competition at the margin is thin even when you
11 start. If you start locking up generators behind
12 constraints, you take more generation out of that where the
13 rubber really hits the road, the margin in the capacity
14 market. That will render your wholesale market disastrously
15 weak in competitive intensity.

16 My view is that we need to correct the
17 transmission deficit very quickly; otherwise the excellent
18 efforts on standard market design and RTO formation will be
19 in vain. I am advocating to you that we quickly need to, as
20 quickly as we can, get to a truly independent transmission
21 sector. I'll regard the RTO as an excellent step forward
22 but we can do an awful lot better, and actually a very big
23 RTO, like let's say the Midwest ISO, will be, part of it
24 will be 170 gigawatts. Really how much independence, I mean
25 it's a huge job, how much real independence can the RTO

1 bring to a transmission sector which is still vertically
2 integrated. Who's to be pressing the buttons, who's going
3 to be climbing the towers, who's going to be doing the
4 maintenance.

5 The vertically integrated company is still going
6 to be doing it, and the ITC can have a very valuable role
7 there in fitting in below the RTO under the supervision of
8 the RTO, and actually bringing extra independence,
9 dramatically more independence, I'd say.

10 The other thing I'd like to bring to your minds
11 is that we need professional transmission companies. We
12 need to find slots. I would say this because that's where
13 I'm from, but I honestly believe that we need to find a slot
14 for companies who have managed transmission, who have
15 managed transmission actively, who are really going to get
16 at those existing assets and completely change the way that
17 they are operated so that we don't have to wait for new
18 access to be built.

19 Complete management focus on hunting down
20 congestion and eliminating it is critically important in my
21 view. I believe the clear accountability for getting that
22 engineering job done is important. And I believe you really
23 need to have somebody's feet that you can hold to the fire
24 to make sure that's done. Complex market arrangements have
25 their place but this is about brutal engineering, high tech

1 engineering making that system work better. And I believe,
2 given the crucial importance of transport, particularly with
3 the difficult situation, the deficiency of transmission in
4 the country, that I don't believe we can afford experiments.
5 We need to get this job done quickly.

6 Therefore, I'm going to argue in the next five
7 minutes or so passionately for the establishment of ITCs
8 with the proper role to bring real management focus to
9 improving assets, adding hugely to independence, and I want
10 to just touch on some of the real engineering detail because
11 sometimes I'm worried that that isn't focused on enough.
12 Slice and dice, the outcome of this debate will determine
13 whether you get these to flourish, and I think they're very
14 important. When the transmission just continues to be the
15 Cinderella function, unloved, uninvested, not gracing the
16 ball, as some of you will have heard me speak about
17 elsewhere.

18 (Laughter.)

19 MR. WINSER: I'll avoid the allusions to who is
20 Prince Charming in all of this, and I'll pass around some
21 slides. You may have them. Those that haven't, don't
22 worry. They're an aide memoire. I'm just going to quickly
23 canter through them. I've jotted down the public policy
24 objective which I'm not going to linger on, which I think
25 are very obvious. I then want to talk about how my vision

1 of the RTOs and ITCs should work together. RTOs you have my
2 full support. Few, large, they're responsible for three
3 things in my vision. They're responsible entirely for
4 developing, operating, and implementing the market, the
5 wholesale market where generation and demand is balanced.

6 They are then responsible for two other things.
7 They are bound to be substantially bigger, at least in the
8 short term, than any ITC that I can craft in my dreams.
9 That means it is imperative that we get that coordination.
10 I believe there is a great oversight role, just in terms of
11 geography, and the final thing that I believe at the highest
12 level they should do is, I mean, National Grid has operated
13 for eleven years without anybody ever questioning their
14 reputation for independence, but I understand the emotion
15 here on that issue. And the market participants need to
16 have comfort on that issue. I believe they should have a
17 functional oversight. They should look over our shoulders
18 but we really want a role and we really want to carry out
19 functions. I then jotted down what is the cost scale and
20 the management focus on this thing? This is about getting
21 things done. This is about management.

22 I agree with Phil Harris of PJM. The core skill
23 is information exchange. It's about information. That's
24 where the management focus should be.

25 MR. MILLER: Excuse me for a second. Do we have

1 the copy of your presentation to put up?

2 MR. WINSER: No. But they are at the back.

3 MR. MILLER: Great.

4 MR. WINSER: How do ITCs fit into that
5 independence, a new level of independence drawing
6 responsibilities away from vertically integrated companies,
7 big foot print I believe structured. We have to get there
8 some time in the future. That's my belief. But let's
9 contrast -- the core skill is transmission engineering. The
10 management focus should be investing and running
11 transmission systems effectively. That's a big job. Let's
12 not confuse these two things. This is a vital partnership
13 between markets and transport. You need two organizations
14 here.

15 ITCs will take vigorous actions on all sorts of
16 cost congestion, operational costs. They'll be able to
17 attract capital if we give them the right responsibility,
18 and you know the great thing, for every dollar they attract,
19 and most companies are capital constrained in some way, and
20 for every dollar they're going to attract they're going to
21 spend on transmission. You can't say that without them.

22 What do I expect them to do? I expect them to
23 drive up throughput, drive down congestion, create a
24 flexible network which can take power flows from virtually
25 anywhere to anywhere because once the wholesale market

1 really starts to kick, then there'll be huge innovation in
2 generation which will move the economics around very fast.
3 I expect them to connect up generators very quickly when
4 they see an opportunity for market and not make them stand
5 in line for two or three years. I expect them to drive down
6 the costs for the customer in every way. And then I put in
7 the pack some real engineering.

8 Keeping an eye on the time, I just want to pick
9 out a few. I wrote down the first 20 bits of real
10 transmission innovation on existing assets, one on new
11 rights-of-way that can be done. I just want to talk about a
12 few of those very briefly.

13 Phase shifters are used here but they're used
14 defensively. That's no good. They shouldn't be used to
15 keep flows out, they should be used to enhance flows.
16 What's going on?

17 What my company is expert in, we drive the assets
18 right to the limit, the safe limit, the reliable limit.
19 When you push power through lines, you know they siphon off.
20 Everybody knows that; just to remind you. And when you want
21 to push more through, the thing to do is to make sure
22 they're not going to sag into trees and flash over. And
23 what we do is we mount computerized lasers and helicopters
24 and fly all critical circuits to exactly plot every span to
25 see exactly how high you can load that line, and if that

1 isn't any good we restring them, we tighten them up. If
2 that isn't any good, we put new -- you know, I'm amazed it's
3 not well-known here, gap conductor, it's called and it
4 increases the throughput on existing lines by about 30
5 percent. It's expensive and it's difficult to restring but
6 you need that management focus that's going to do things
7 like that.

1 New rights of way I put at the bottom of my list.
2 That's too slow for you and too expensive.

3 Excellent asset management. We never work on
4 critical circuits during the day. We work on them overnight
5 or weekends or lifeline. Or if we have to, say, change
6 insulator strings, we don't have one line crew taking five
7 weeks to do the job. We have five line crews taking one
8 week to do the job. That's about management focus.

9 And in terms of control, we don't want to look at
10 congestion as a reported item three or four months later or
11 try to work out what's the year. It has to be monitored
12 second by second. If it gets expensive, you have to put the
13 circuits back in service, even if you've got to sit your
14 contractors in huts drinking coffee, because that's the
15 right economic thing to do.

16 In short, I'm recommending a remedy which is
17 aggressive and it works. It's blunt and effective. What
18 does that mean finally for slice and dice? It means that I
19 am happy to have all sorts of super regional oversight,
20 indeed functional oversight RTOs running the markets,
21 devising the markets, running super regional OASIS and ATC
22 calculation, giving the security coordination overview, the
23 security coordination, the NERC role, and running the
24 planning process.

25 But ITCs need to have a real role here. And they

1 need to have -- all the things I've talked about are about
2 throughput. Give us a role on throughput. Let us drive
3 throughput. We need to therefore have a role on inputs to
4 the ATC calculation, local security management where the
5 real innovation on these assets is going to come, and the
6 real opportunity to promote very ambitious uprating of
7 existing facilities into the planning process without having
8 to get bogged down for years in bureaucracy and the planning
9 process.

10 I understand the need for public scrutiny of
11 that. I've lived with that for the whole of my career.
12 That isn't what I'm saying. We do need the opportunity for
13 companies in the transmission sector to innovate. So I hope
14 I've advocated strongly a good role for ITCs. I believe
15 they will serve you well. I believe without them, the
16 efforts on wholesale markets will be in vain. Thank you.

17 MR. MILLER: Thanks, Nick. That was the most
18 exciting rendering of the transmission business I've heard
19 in quite some time.

20 (Laughter.)

21 MR. WINSER: I'm not sure whether that's a
22 compliment.

23 (Laughter.)

24 MR. MILLER: It is, believe me, especially coming
25 from me. What we'll do is this has generated some

1 questions, at least in my mind, but we'll wait until we go
2 through everybody's presentation, and the next up is Laura
3 Manz from PSE&G.

4 MS. MANZ: Good morning. I think most of you
5 know my background. I've spent some time keeping the lights
6 on and then moved along to working on market rules and
7 competition, especially in the Northeast.

8 For nearly ten years, both Congress and FERC have
9 promoted competition based on fair and efficient markets
10 rather than traditional regulation that we've been used to.
11 With several divestitures behind us, and with the formation
12 of ISOs, it's too late to turn back and we have to get
13 competition right.

14 FERC has made progress in recognizing that
15 reliability and investment incentives can be achieved
16 through the standard market design that's based on
17 locational marginal pricing for the spot market and tradable
18 property rights in the form of FTRs.

19 Our focus today is on how to structure an RTO
20 that will credibly implement the standard market design, not
21 undermine it. Without careful choices on these important
22 issues, we will be back at this table figuring out how to do
23 it over.

24 FERC has correctly based fairness and competition
25 on the bedrock of independence. This concept has expanded

1 as the field of competitors has increased. At first we
2 thought of competitors as being only between the generators
3 and marketers, and we called these market participants. We
4 defined independence as independent from these market
5 participants, and we established independent system
6 operators to guarantee even-handed treatment.

7 Experience in areas with key features on the
8 standard market design demonstrates that the field of
9 competition is now open to more kinds of competitors. Under
10 locational marginal pricing with tradable financial rights,
11 generators and marketers now compete with transmission and
12 demand-side solutions to capture economic value.

13 The expanding field of competitors now includes
14 all generation owners and marketers, retailers and other
15 demand-side participants, including the provider of last
16 resort, all transmission owners, including ITCs and
17 merchants. And because markets are going to be
18 interconnection-wide, our notion of independence from
19 competitors from must expand accordingly to include all
20 buyers, sellers and asset owners across an interconnected
21 region.

22 To keep the competition fair, we need RTOs to
23 provide the level playing field. No competitor should be
24 allowed to control the rules of competition or access to the
25 competitive arena. The RTO's essential functions as

1 outlined in Order 2000 must be performed independently in
2 order to prevent any seller, buyer or asset owner from
3 getting an unfair strategic or competitive advantage.

4 Creating this level playing field is the only way
5 that we can assure that consumers actually get the benefits
6 of robust competition. Some have argued that
7 notwithstanding the fairness and independence concerns,
8 those with grid ownership must control some of the RTO's
9 public interest functions in order to attract the financing
10 necessary to promote adequate transmission investment.

11 This argument has never been convincing, and
12 there is mounting evidence to show it's flat wrong. One
13 need look only as far as the Northeast, where more and more
14 transmission projects are being pursued because markets
15 price the value of grid expansion and award property rights
16 to capture the investment value. None of these market-
17 driven investments is being undertaken by entities that
18 control RTO functions, so this bundling of functions is
19 simply unnecessary.

20 In regions where there are no markets or where
21 markets do not price usage efficiently, such as under LMP,
22 there are no good price signals for the value of
23 transmission usage, and there are no property rights for
24 investors to capture the value of the expansions they would
25 pay for.

1 As I testified in front of you before, the
2 appearance of a lack of transmission investment is a symptom
3 of a lack of meaningful pricing. In the absence of a
4 market, the monopoly grid owner is the only game in town,
5 and a big monopoly is in a position to demand very
6 profitable incentives for doing what only it can do.

7 It has also been argued that the grid owner must
8 control the tariff. This is only partly true and we have
9 arrived here by historical accident. Today's pro forma
10 tariffs include not only the provisions by which grid owners
11 recover their revenue requirements, but also the market
12 rules of the new era. We need to separate these purposes
13 and try not to achieve them in a single pro forma tariff.

14 When grid owners legitimately claim they need to
15 control the tariff, they are focused on ensuring their
16 ability to recover their revenue requirements. We should
17 provide that assurance through a separate tariff focused on
18 revenue recovery. We cannot allow the grid owners to
19 control how parties gain access to the grid to participate
20 in the markets. This is the job of the market rules and the
21 RTO.

22 Turning over control of an asset for use by the
23 system operator doesn't mean turning over the purse strings.
24 We see this with generators. They turn over the control of
25 their generating assets and they still make money, and this

1 is now true within transmissions now in this field of
2 competitors. Once control of the market rules is no longer
3 the issue, then those who own and invest in infrastructure
4 should have two avenues to recover their cost and profit
5 expectations. Where market-driven investments are possible,
6 investors should look to the market prices and the award of
7 property rights to capture the value.

8 Generation, transmission and demand-side
9 solutions should be on a level playing field without
10 subsidies or socialization of costs. Where no competitive
11 solutions come forward, the builder of last resort should
12 have the ability to file Section 205 requests designed to
13 recover its revenue requirements.

14 There is no compelling reason to allow any market
15 participant or asset owner to control the RTO's essential
16 functions. There is every reason to make sure that the RTO
17 creates the level playing field for all competitors,
18 including those who own, invest in and manage transmission.

19 It follows that all of the RTO's public interest
20 functions should be performed by an RTO that is truly
21 independent from all competitors. Neither grid owners nor
22 any other competitor should have control of any essential
23 function.

24 Thank you.

25 MR. MILLER: Thanks, Laura. And also thank you

1 for being so brief. Larry Ruff is our next speaker, an
2 independent consultant who has written extensively on a
3 number of transmission issues.

4 MR. RUFF: Thank you. It's a pleasure to be here
5 today. For those of you who don't know me, I've been in the
6 electricity market design business for about 15 years,
7 beginning back in the U.K. when the U.K. was just doing its
8 restructuring, and around the world since then, and have for
9 the last two years been an independent consultant.

10 The Commission's efforts to develop competitive
11 electricity markets in the United States have gone through
12 what I see as four principal stages or is going through
13 these stages.

14 The first stage was prior to Order 888 when there
15 was just the general requirement that integrated utilities
16 should allow third parties open and nondiscriminatory or
17 comparable, as it was called then, access to the monopoly
18 transmission system.

19 Stage two began with Order 888. At that stage,
20 integrated utilities were required to publish open access
21 transmission tariffs, or OATTs, that provide both utility
22 and nonutility users the same access to monopoly
23 transmission services.

24 Stage three was ushered in with Order 2000 in
25 which integrated utilities were required to create

1 independent regional transmission organizations to define
2 and administer the OATTs and to assure market-based
3 management and pricing of energy imbalances, ancillary
4 services, congestion and some form of transmission rights.

5 Stage four, which we hope is coming up soon, will
6 be based on a standard market design in which again, at
7 least some of us hope, RTOs will be required to be large
8 enough. We all hope that. And then some of us hope that in
9 this standard market design they will be required to use
10 locational marginal prices, LMPs, and financial transmission
11 rights to manage and price energy imbalances, congestion
12 ancillary services in an integrated dispatch spot market
13 process.

14 At each stage in this decade-long evolutionary
15 process, the Commission has in effect acknowledged that its
16 earlier policies were inadequate to create effective and
17 efficient competition in electricity and has taken steps to
18 correct the situation. This willingness to experiment and
19 then to acknowledge and remedy shortcomings in the resulting
20 policies is very much to the Commission's credit over the
21 years. But any such trial-and-error evolutionary process
22 inevitably produces concepts and processes in earlier
23 evolutionary stages that are unnecessary or even
24 counterproductive later. At some point they have to stop,
25 and the unproductive growth from earlier stages must be

1 acknowledge and pruned away if the new ideas and processes
2 are to thrive.

3 The purpose of this technical conference is to
4 discuss the allocation of RTO characteristics and functions
5 among separate organizations, with particular emphasis on
6 the role of the RTO itself relative to an independent
7 transmission company, ITC, or transco. This is a difficult
8 and contentious issue for several reasons, including the
9 fact that there's no clear, generally accepted definitions
10 of the basic terms such as RTO, ITC and transco. But a more
11 fundamental problem I think is that many of the RTO
12 characteristics and functions themselves as they're
13 currently described are vestigial leftovers from earlier and
14 unsuccessful stages in the evolution of competitive
15 electricity markets.

16 It will not be possible to develop a clear
17 understanding of or consensus on the allocation of RTO
18 characteristics and functions until these characteristics
19 and functions are defined in terms relevant to the
20 successful market institutions and designs that are now
21 emerging, all of which are some version of the standard
22 market design based on LMP.

23 For example, we now know that truly
24 nondiscriminatory access cannot be provided by an integrated
25 monopoly using an OATT that looks like a traditional tariff

1 but require detailed rules defining an integrated dispatch
2 spot market process operated by an entity independent of any
3 market participants.

4 For this reason, the list of functions to be
5 allocated among the RTO and other entities should include
6 the design and administration of a physical access tariff as
7 one function and the design and administration of an
8 integrated dispatch spot market process as a very different
9 function, not a single tariff administration and design
10 function covering both, a point that Laura just made.

11 As another closely related example, it's now
12 generally accepted that the concepts of total transmission
13 capacity and available transmission capacity have severe
14 weaknesses. The TTC and ATC between two points on a looped
15 system cannot be defined or measured independently of the
16 dispatch. It's further recognized that managing congestion,
17 parallel pathflows, energy imbalances and interregional
18 coordination are all parts of a single system controller
19 dispatch problem that must be solved in real time, ideally
20 using a full system model.

21 The list of functions to be formed by an RTO
22 should include disintegrated dispatch imbalance congestion
23 management process as a single function, not calculation of
24 TTC, ATC and management of congestion, parallel pathflow and
25 interregional coordination as though they were multiple

1 separate functions that might be performed by different
2 entities in a slice-and-dice sort of thing instead of one
3 from column A and one from column B. But you have to get
4 the right ones in the right columns or it doesn't work.

5 If the basic RTO functions are defined as the
6 logically integrated functions that are necessary in the
7 standard market design based on LMP and FTRs, the problem in
8 allocating RTO functions becomes much more manageable. The
9 most essential condition is that the RTO must define and
10 either the RTO itself or an independent system operator or
11 ISO must operate the integrated dispatch spot market LMP
12 process. Once this essential condition is met, the other
13 required functions can be allocated among various entities
14 based on pragmatic considerations of independence, cost
15 effectiveness and consistency of incentives with objectives.

16 The real issues here concern the division of
17 responsibilities among the ISO and division of
18 responsibilities among the RTO, possibly an ISO under RTO
19 oversight or contract, and any ITCs or transcos in the RTO
20 region. In terms of the functions listed in the matrix of
21 RTO responsibilities distributed prior to this technical
22 conference, the RTO itself or through an ISO should perform
23 those functions related to defining real time operations and
24 prices, such as making real time transmission control
25 decisions based on information from the grid owners

1 implementing transmission loading relief and interchange
2 schedules, redispatching for emergencies, congestion
3 parallel flows and imbalances, and procuring and deploying
4 most ancillary services.

5 An ITC or transco that owns the transmission grid
6 should physically maintain and operate its grid assets,
7 provide interconnection services and take the lead in
8 defining and seeking Commission approval for the tariff and
9 rates designed to recover its costs with reasonable profits
10 and provide incentives for performance. Such incentives may
11 take various forms.

12 When I listened to Nick's impassioned discussion
13 of the things he wants to do as a transmission company, I
14 think that's terrific. The question is how to provide the
15 incentives to do that. Incentives for an ITC to do that may
16 include payments based on the availability or performance of
17 assets relative to some expected levels or the right to sell
18 incremental FTRs resulting from increases in the
19 transmission capacity and various other mechanisms. But
20 other than such clearly defined incentives, and ITC or
21 transco should not in an LMP world, logically cannot be
22 responsible for real time congestion, maximizing
23 transmission service or selling nonfirm services. These
24 things are provided by the LMP-based market.

25 The RTO and ITC should cooperate to perform

1 studies, establish procedures and plan scheduled maintenance
2 outages and similar longer-term functions. Functions
3 related to total transmission capacity and available
4 transmission capacity should be redefined to be more
5 relevant in an LMP world and then probably assigned to the
6 RTO.

7 Market monitoring procedures should be defined by
8 the RTO or perhaps some other entity, given that the market
9 monitor may need to criticize the RTO's own market design or
10 implementation.

11 Planning and implementation of transmission
12 expansion is a complex and contentious issue for which
13 there is no perfect answer in any system. The RTO, ITCs,
14 transcos, market participants and even sponsors of potential
15 merchant transmission projects will all play a role in
16 identifying transmission needs and identifying alternative
17 solutions. Final decisions will almost always be made in
18 some regulatory process. The only thing that is clear is
19 that transmission expansion decisions should not be made
20 unilaterally by an ITC or transco.

21 Sponsors of for-profit transco proposals such as
22 Nick often strongly object to the type of allocation
23 functions I've just outlined, saying that it would make
24 their business uninteresting, unprofitable, unable to
25 attract investment or not a real business at all. I see

1 little basis for this position if only because none of the
2 transco alternatives have been defined in enough detail to
3 allow anybody to know just how they would compare as
4 businesses.

5 More fundamentally, however, the most boring
6 regulated monopoly business can be very profitable if
7 regulators allow it, and will have no difficulty attracting
8 investment if it is, while the most exciting business can be
9 strangled by its regulators. A transco performing the
10 functions outlined above can be given strong profit
11 incentives to perform in certain ways.

12 It is never easy to design performance incentive
13 for a monopoly. They will always reward and motivate the,
14 quote, "right things", unquote. But this is at least as
15 true for a transco that has larger and more interesting
16 functions than those I have suggested.

17 I've said little here about whether the RTO, ISO,
18 ITC or transco should be for profit or not for profit
19 because I think this issue is largely a red herring or at
20 least of secondary importance. Any of these entities can be
21 a for-profit company, and most of them probably should be,
22 at least eventually. The management of nonprofit entities
23 can be given personal financial incentives to perform well.

24 If it is hard to know when the management of a
25 nonprofit infrastructure monopoly is performing well, how

1 does it help to make the monopoly a for-profit company? The
2 same regulators or governing body who do not know how to
3 reward nonprofit management will also not know how much
4 profit to allow the for-profit company, and the potential
5 mistakes may be larger and more costly in setting a profit
6 function than in setting personal performance bonuses.

7 Finally, a word about independence, what it means
8 and how to assure it. Infrastructure monopolies should be
9 independent, both in the sense that their decisions should
10 not be influenced by any market participants, and in the
11 sense that they should not be affiliated with any market
12 participants who might be affected by their decisions.

13 ITCs as owners of and potential investors in grid
14 assets inherently compete with generators, demand-side
15 options and merchant transmission companies. Because these
16 entities provide services that can and do compete directly
17 with the existing or potential new grid assets of ITCs.

18 For this reason, ITCs should not be allowed to
19 make either operational or investment decisions that affect
20 the value of existing or prospective grid assets, although
21 ITCs may be allowed to compete with other entities to
22 provide grid assets when some other entity such as the RTO
23 is making the final decisions.

24 Conversely, if grid owners are not in a position
25 to make operational or investment decisions that affect the

1 value of grid assets, it may not be critical that they be
2 totally independent of competitive generators and traders.
3 As long as the dispatch spot market process and the
4 investment decision processes are managed by the RTO or some
5 other separate entity, it may be acceptable to allow grid
6 owners affiliated with generators and traders to provide
7 grid services under incentive arrangements and to compete to
8 provide new grid assets.

9 In summary, the critical issue in allocating RTO
10 functions is to assure that the RTO, itself or through an
11 ISO, defines and administers an integrated dispatch spot
12 market process based on LMP, what is becoming known as the
13 standard market design.

14 Once this is done, essentially all of the real
15 time RTO functions will have been allocated to the RTO/ISO.
16 An ITC or transco can then focus on operating its grid
17 assets under instructions from the RTO/ISO, providing
18 interconnection services and cooperating with the RTO to
19 provide grid information, perform planning studies, define
20 procedures for coordinating maintenance outages, and similar
21 longer-term matters.

22 If system planning and investment decisions are
23 also made by somebody other than the ITC, as I think they
24 should be, the ITC can compete to provide new grid assets
25 and may even be affiliated with competitive generators and

1 retailers. There's no reason that such an ITC or transco
2 cannot be a viable business that attracts all the investment
3 capital it needs. Indeed, an ITO or transco that stays out
4 of system operations and planning in this way may have more
5 freedom to compete than one that is more involved in the
6 operational and planning matters that should remain with the
7 RTO.

8 Thank you.

9 MR. MILLER: Thank you, Larry. Mike?

10 MR. STUART: Thank you. This conference is
11 timely. Right now the slicing and dicing issues, if they're
12 not addressed correctly, are going to result in a wholesale
13 market that does not work. If it's done incorrectly, we're
14 going to re-balkanize the grid and undercut the Commission's
15 RTO initiative. And unfortunately right now, the slicing
16 and dicing debate is focused on bilateral negotiations that
17 are going on at the RTO level between potential ITCs and
18 RTOs. And in the situation where the RTOs are under
19 pressure to say yes to what the ITCs are asking for in order
20 to keep current members who have withdrawal rights in the
21 pretty near horizon, and in order to attract new members.

22 And given the importance of this policy
23 initiative, that's not a good place for us to be right now.
24 So this conference is pretty welcome.

25 We support real ITCs under the RTO umbrella.

1 Emphasis on "real" and "under". Because I think that's
2 where the friction is occurring on these debates that are
3 going on at the RTO level. By a real ITC, I mean an ITC
4 that takes facilities as a consequence of irrevocable
5 divestiture so that they have the facilities, there's not a
6 potential for reversing that, and somebody who has
7 independence in fact. And by "independence in fact", I mean
8 an ITC that can perform the functions that are given to it
9 without reliance upon the former owners, that can stand on
10 its own two feet.

11 Under the RTO I think is very important because I
12 view the ITCs, if this is to work, to be subordinate
13 entities to the RTO with the RTO performing the regional
14 functions and the market functions. And I think right now
15 the debate that is going on at the RTO level, ITCs are
16 negotiating to be side by side partners that interact with
17 the RTO as a neighboring RTO so that we don't really end up
18 with one RTO, we end up with two organizations doing market
19 functions and tariff functions that should be done by one.

20 So the "under the RTO umbrella" is important in
21 making sure that when you do the under the RTO umbrella,
22 slicing and dicing the functions correctly so that you don't
23 interfere with the development of the wholesale market is
24 critical.

25 From our perspective, the chief value of the ITC

1 is the focus that it will bring to local grid management and
2 expansion. In recent history transmission within the
3 corporate entity has lost out in the internal competition
4 for capital. Corporations have desired to pursue investing
5 in unregulated ventures where they have a potentially higher
6 profit return. And they have also not invested, frankly,
7 because it's not a logical economic decision to invest in
8 something that exposes your own generation to competition.
9 And I think if you get a true stand-alone transmission
10 company that is focused on transmission only, you will see a
11 focus on investment in the grid, and you'll see a focus on
12 maximizing throughput.

13 I think we have evidence in Wisconsin that this
14 works in practice. We formed the American Transmission
15 Company a little more than a year ago. It was formed by 25
16 different utilities who either put cash or utilities into
17 the company. It is a stand-alone transmission company.
18 It's not allowed to own generation.

19 When it was formed, it purchased \$550 million of
20 assets at net book value. The assets are in Michigan,
21 Wisconsin and Illinois. If you look at the construction
22 budget that has come out of that new company, the
23 construction budget for the next ten years exceeds \$100
24 million per year. And that does not include a major 345 kV
25 line that's being built from central Wisconsin to MAPP that

1 was already under construction and which will be turned over
2 to ATC when it is complete.

3 If you look at that construction budget, that
4 construction budget is two to three times the aggregate
5 construction budget of the people who contributed facilities
6 to ATC. And if you look at how they're funding that
7 construction budget and how they're moving forward with
8 construction, they're doing it without rate incentives.
9 They're doing it without a separate tariff under the Midwest
10 ISO. They're doing it without a separate rate under the
11 Midwest ISO. And if you look at the bond rating that they
12 have from the various bond rating agencies, they've been
13 well received by the market as a stand-alone transmission
14 company.

15 With that background, in terms of the functions
16 which I think should be assumed by the ITC from the RTO, I
17 think one of the first things they can do is take on a
18 larger local planning function. I think that the RTO still
19 has to put together the regional plan and incorporate the
20 local plan into the regional plan, but I think they can give
21 more deference to an ITC and have it perform that planning
22 function.

23 I also believe when there are local fixes that
24 are closely tied to the reliability of service to the
25 distribution utility that they shouldn't have to stand in

1 line and wait for the end of the construction planning
2 budget at the RTO. They should be able to give notice to
3 the RTO, and with the RTO's concurrence, move forward to
4 immediately fix reliability problems. And by things that
5 are close to the distribution system, I mean the
6 installation of new delivery points, solutions to voltage
7 support problems or other reliability problems that exist.

8 And I can give you a quick example. We just
9 obtained a new member within the last year. And when we
10 went out to meet with the new member to find out what some
11 of the issues they had were, we discovered that there was a
12 voltage support problem in the area and that the member had
13 actually been warned of firm service curtailments over the
14 past three summers. It was a problem that preexisted ATC
15 taking control of the grid. But it was a situation that
16 hadn't been fixed.

17 ATC was in the process of getting a certificate
18 filed to solve that problem. But in the meantime, we sat
19 down with ATC and working in partnership with them, have put
20 in place some interruptible incentives that have put some
21 interruptible load in place and have also installed some
22 diesels at that point, so that for the next two or three
23 summers until the facility fix occurs, we've actually
24 diminished the probability of firm interruptions, which
25 would have occurred without these fixes when the temperature

1 reached approximately 90 or 91 degrees.

2 So those sorts of things should not wait for the
3 planning function. You ought to let the ITCs move forward
4 to fix those things.

5 The other functions that I think the ITC can take
6 on are those which are closely tied to grid management where
7 they can act as an adjunct to the RTO staff and unburden the
8 RTO staff and provide assistance to them. I look at things
9 such as the provision of facility ratings and other inputs
10 to the ATC, TTC calculations. I think they could perhaps
11 actually do the ATC calculation using the RTO-approved
12 methodology and the RTO software. I think they could
13 perform system impact studies. I think that they could
14 perform facilities studies, and I think they could initially
15 deal with generator and distribution interconnection
16 requests.

17 Now in all of those instances, I think that the
18 ultimate say resides with the RTO who would have to make
19 sure that the studies and other functions were done
20 properly. And I also believe that the functions ought to go
21 to the RTO through a delegation of authority that it has a
22 string attached. In other words, the RTO ought to have the
23 final say, but they ought to delegate their authority to the
24 ITCs. But if the ITC isn't doing its job, I don't think we
25 should presume from day one that there's no way to recapture

1 that authority. If they don't do their job, the RTO should
2 have the ability to recall the authority and do these
3 functions on a centralized basis.

4 With respect to the RTO and the functions that I
5 think it must keep if we're going to achieve a wholesale
6 market, I think the list should include security
7 coordination, congestion management, market design and
8 market administration, the preparation of the regional plan,
9 the operation of the OASIS, a single tariff administration
10 function, and also the ability to change the tariff rate and
11 rate designs. Although I do believe that the owners should
12 retain control of the revenue requirement, and in that
13 process, they may have the right to propose incentives that
14 they deem appropriate.

15 I believe that the RTO should do the maintenance
16 schedule approval, and that they should maintain functional
17 control of the system.

18 I was glad you started out today with Don
19 Benjamin, and I was also glad that Scott mentioned that if
20 there were any allocation issues that were overlooked that
21 we should raise them. The allocation list that was sent out
22 did not include one key allocation of function issue which I
23 think is very important, and that is the control area
24 function and where does that reside.

25 We have some RTOs where the control area function

1 is centralized, and we have other RTOs where the control
2 area function remains with the vertically integrated
3 utility, even though they are now no longer the transmission
4 provider. That's the situation in the Midwest ISO, and I
5 believe it's a major market flaw.

6 Don Benjamin talked a little bit about load
7 following and regulation and where those services are going
8 to come from. I do think that right now we have too much
9 generation on the system on AGC because each individual
10 control area is doing the regulation and load following
11 itself. These tend to be small areas, and we are losing the
12 benefit of diversity between these small areas by relying on
13 the load following within sort of artificial boundaries.

14 I do think that if we want to get to a market for
15 load following and regulation, we have to broaden that
16 market, which means consolidating the control area function
17 and broadening it. And I also believe that if you want the
18 market to work, it means placing that function in
19 independent hands.

20 And I'll give you a little bit of a background
21 about why I think it has to be in independent hands. Right
22 now even though we have at the American Transmission Company
23 the preexisting owners of the facilities that are owned by
24 the American Transmission Company perform the control area
25 function. And every time I do a transaction, I need the

1 approval of the control area because I have to get a tag
2 from them to get my schedule approved. So every commercial
3 transaction I do, I send to my competitor who approves it.

4 And that makes me very nervous now because the
5 Commission's standards of conduct I believe apply to
6 transmission providers. None of these companies are any
7 longer transmission providers, nor are most of the control
8 areas in the Midwest any longer transmission providers.
9 It's not clear to me that they are any longer bound by the
10 standards of conduct when I provide this competitively
11 sensitive information to them.

12 The other thing that happens with the control
13 area is they do not tag their own transactions, generation-
14 to-load internally to the control area. I have to tag all
15 of my transactions, including transactions where the load
16 and generation is in the same control area, and this creates
17 a myriad of problems for me in operating. The control area
18 operator can ramp its generation up and down at any point
19 without getting permission from anybody.

20 Whenever I want to change a schedule, I have to
21 go back, ask for new tag and ask for new permission, and it
22 becomes particularly dicey in a situation such as where I as
23 a network customer am buying on a nonfirm basis from off
24 system and the control area as a network customer on behalf
25 of its bundled retail load is doing the exact same thing.

1 If our nonfirm transactions get cut, we each have to flip
2 back to our resources and dispatch new resources to cover
3 our load.

4 Since they don't tag their transactions, they
5 simply ramp up their generator to cover their load. I have
6 to go and ask permission from that same entity for a tag
7 that allows me to dispatch my own resource which may have
8 the exact same impact on the system, in fact might be coming
9 from the exact same unit.

10 So I think that's an important issue that we do
11 need not to lose sight of in this splitting of functions.
12 Thank you.

13 MR. MILLER: Thank you, Mike. Sue Kelly?

14 MS. KELLY: Thank you very much for inviting me
15 back to be on this panel, but I'm tempted to say we've got
16 to stop meeting like this.

17 MR. MILLER: We wouldn't have had a meeting
18 without you.

19 MS. KELLY: We are all, of course, waiting with
20 baited breath for the NOPR that will soon be coming. I have
21 to note again that the views presented here are solely my
22 own and are not to be attributed to any client, present,
23 former, living or dead.

24 (Laughter.)

25 MS. KELLY: The issue of what entity should

1 perform what RTO functions depends in my view on three
2 factors. The first and the foremost is independence. Before
3 you give an ITC any significant RTO function, you should
4 insist on full independence from all market participants.
5 And this includes passive ownership.

6 Let me digress down the cul de sac of passive
7 ownership for just a second. You've acknowledged from the
8 very beginning in Order 2000 that passive ownership is a
9 problem. And I will actually quote from the order. It
10 says:

11 The Commission concludes that an RTO will not be
12 successful unless all market participants believe that the
13 RTO will operate the grid and provide transmission service
14 to all grid users on a nondiscriminatory basis. It is clear
15 that the perception of a broad cross-section of commentors
16 is that passive ownership may interfere with the independent
17 operation of RTOs. In the view of many commentors, passive
18 ownership is a subtle mechanism to allow existing
19 transmission owners to continue to control use of
20 transmission assets and ultimately deny equal access to
21 competitors.

22 That was your view based on the comments that you
23 took in Order 2000. Nonetheless, you decided to allow
24 unlimited passive ownership both in duration and amount.
25 So, as a result, we've spent the last two years duking this

1 issue out in various RTO proceedings. Incumbent
2 transmission owners are making proposals that have, quote,
3 "passive ownership", but try to attach as many ownership
4 rights as they possibly can while still calling it passive,
5 and we intervenors are fighting tooth and nail to limit
6 those rights. And many of those cases have come before you.
7 I will not comment on them in detail, except to say that it
8 has been an exhausting and counterproductive battle.

9 The very fact that transmission owners have
10 fought this issuer so hard just reinforces the perception of
11 at least this market participant that there is a reason for
12 that. And that reason is, they intend to use that passive
13 ownership as fully as they possibly can.

14 So when you look at the retained functions of
15 ITCs and those ITCs feature passive ownership, I would look
16 at it first through the independence lens. Substantial
17 passive ownership hiding even behind an independent board,
18 no matter how high powered, should not be enough for you.
19 We've all seen a very recent and stunning example of how a
20 high powered independent board clearly had no idea of what
21 was going on at a major corporation. So I think the fact
22 that an independent board has been installed is not enough.

23 I should note, however, that there are creative
24 solutions that are possible to the transmission ownership
25 paradigm, and I would note the American Transmission Company

1 that Mike referred to as one of them. Note, however, that
2 they are operating as the equivalent of a transmission owner
3 beneath MISO and are not asking for special ITC status or
4 privileges. They recognize they're not independent yet, and
5 they're not seeking that kind of special status. I would
6 question whether others need it either, frankly.

7 The second factor I would ask you to look at is
8 not-for-profit versus for-profit organization. Okay. I
9 have a bias here. I admit it. I've spent 20 years
10 representing primarily not-for-profit utilities, either
11 consumer or publicly owned. But I think there are certain
12 functions that arise from the public interest aspect of
13 utility service that are not well suited for a for-profit
14 entity, whether it be an ITC or an umbrella RTO, and I will
15 briefly list them.

16 The first is the primary and final responsibility
17 for transmission planning. One thing that was clear from
18 the October conferences is it that this is an incredibly
19 divisive issue. Siting transmission is a contentious
20 process. It involves taking people's land through eminent
21 domain. You've heard many state commissioners talk about
22 the problems it presents for them. I think it's very
23 important that this process be spearheaded by an entity that
24 has no financial interest in the outcome and will consider
25 all alternatives -- demand side, generation, transmission,

1 you know, satellite, you name it -- consider all possible
2 options on an even basis, and will not discriminate in favor
3 of transmission that it would own against that it would
4 merely operate.

5 Leaving the planning process solely to a for-
6 profit entity I think will breed suspicion that private
7 corporate interests are being placed above the public good.
8 And that leads to increased difficulty in getting the
9 transmission that we all agree we so badly need.

10 The next is market monitoring. A private for-
11 profit entity is naturally focused on producing profits.
12 That's why it's there. I salute Nick. That's his job. But
13 functions that don't contribute to that bottom line often
14 get secondary importance. And a perfect recent example of
15 this is airport security. When this was left to private,
16 for-profit airlines, they didn't spend enough money on this
17 function, to everyone's sorrow.

18 I think it's very important that we figure out
19 which functions are public interest functions and make sure
20 that those are handled outside of the for-profit
21 environment. Frankly, I think that market monitoring should
22 be done outside of any RTO because the RTO would be one of
23 the entities that will be examined. They need a secured
24 source of funding independent of the regular RTO budget
25 process, and they should report directly to this Commission

1 and interested state commissions.

2 The next function is that of the regional
3 security coordinator. In its role as a regional security
4 coordinator, an RTO is ultimately responsible for keeping
5 the lights on, and that is a public interest function. This
6 may result in the taking of actions which will actually
7 reduce the profits that a for-profit RTO would make, or an
8 ITC. We're talking about derating lines, taking them out of
9 service. And I think it's very important that there be
10 somebody who has the public interest first in making those
11 decisions.

12 The last is dispute resolution. Because disputes
13 are likely to arise between the RTO or ITC and its
14 transmission customers, and an ADR process that's run I
15 think by a not-for-profit entity will be seen as having more
16 credibility.

17 The third factor in considering ITC proposals is
18 preserving intact the R in RTO. These need to be regional
19 organizations. Any functions ceded to a subregional ITC
20 should not undermine the RTO's regional mission. And it
21 shouldn't create seams or service problems for customers.
22 It should be seamless to the customer.

23 Applying this factor, I went through the matrix
24 quickly and picked out some functions that I think need to
25 stay at the RTO level. This would include the regional

1 security coordinator function, the transmission control
2 decisions, implementation of interchange, approval of
3 transmission maintenance, coordination of transmission and
4 generator outages, tariff administration, billing and
5 collection -- we want one bill, not two -- congestion
6 management, dealing with parallel flows, OASIS
7 administration, ATC and TTC calculation, market monitoring,
8 the regional transmission planning process, and operation of
9 regional markets. And lastly, coordination with other
10 regions.

11 On the other hand, there are certain tasks that
12 may be able to be safely ceded to a subregional and truly
13 independent ITC. Everything I'm about to say has to be
14 subject to that caveat. These tasks would include:

15 Physical system operation.

16 Performance of system impact studies within the
17 footprint. However, even that has to be coordinated with
18 the RTO because if it's within the footprint, it may still
19 affect facilities outside the footprint.

20 Establishment of equipment ratings, development
21 of the ITC revenue requirement and any performance-based
22 rate mechanisms, and we all know my views on that.

23 Processing of interconnection requests within the
24 ITC footprint. Again, this needs to be coordinated with the
25 RTO because it may have out-of-footprint impacts.

1 Development of inputs for ATC and TTC.

2 And local transmission planning, although that
3 must feed up into the regional process.

4 This all needs to be done subject to RTO
5 oversight. And I agree with Mike that if they aren't doing
6 their job, you should be able to take it back.

7 Let me just close by saying that I'm trying to
8 keep an open mind about this binary model. But I have to
9 say that I think that a binary model automatically tends to
10 undermine the RTO's umbrella authority and efficacy and
11 should be reviewed by you very carefully on a case-by-case
12 basis.

13 I think the burden should be on the applicants to
14 show that this binary model that they're proposing will
15 bring benefits to end use customers over and above what just
16 an RTO would bring. So it has to be an additive showing,
17 because there's inherent drawbacks in bifurcation that need
18 to be overcome.

19 In the past I've given speeches where I've
20 likened these arrangements to joint custody arrangements
21 after a divorce. I've lived with this as a stepmother with
22 a joint custody arrangement for 20 years, and what I know is
23 what's written on the paper is different than what happens
24 in reality many times. If you're going to approve such an
25 arrangement, you have to make sure that the kids are

1 clothed, that they get educated, that they are housed and
2 that someone takes them to soccer practice. And if you
3 don't, everybody in the whole family is going to suffer,
4 including in this case, end use customers.

5 Thank you.

6 MR. MILLER: Thanks, Sue. Jane, I'm afraid I'm
7 going to mangle your last name.

8 MS. MUDGETT: It's Mudgett.

9 MR. MILLER: Mudgett? Okay. Great. Jane
10 Mudgett from Williams.

11 MS. MUDGETT: Good morning. I'm sorry that Paul
12 did not have a chance to be here, but I'm delighted that I
13 could sit in his place regardless. I would say that many of
14 us and many of my colleagues here today don't envy the
15 position that FERC is in right now. It's a situation where
16 we're in a dynamic electricity market and there are those
17 folks who believe we're in a no-win situation.

18 We choose to think a little differently. We
19 choose to think that we have the opportunity of a lifetime
20 to influence our future and develop policies and procedures
21 that we think can make more market participants, including
22 customers, happier than ever before.

23 With that in mind, being in marketing and
24 trading, I have a tendency to think in bullets and
25 communicate in bullets. So that's the approach that I'm

1 going to take. Essentially, we believe that the
2 responsibilities of the RTO are eight core responsibilities,
3 and those eight include:

4 Tariff administration, including design of a
5 single tariff;

6 Congestion management system. And there have
7 been a couple of comments mentioned regarding financial
8 settlements and LMP systems.

9 Third, ancillary services.

10 Fourth, administering balancing markets.

11 Fifth, the ATC and TCC or OASIS administration.

12 Sixth, market monitoring.

13 Seventh, transmission planning, including
14 transmission planning that is open to merchant transmission.

15 And finally, security coordination.

16 It seems like in Order 2000, when we looked at
17 the core functions and so forth, the 12 distinct items that
18 the IOUs were asked to respond to, it seemed so cut and dry.
19 We've now found that not to be the case. That's why we've
20 changed the order a little bit or we've changed the
21 requirements a little bit of the RTO based on our
22 requirements, that of marketers and very often we get the
23 sympathy of generators as well.

24 But one other item that was mentioned earlier by
25 a number of my colleagues here today was the ITC. We do

1 support an ITC under an umbrella organization of an RTO.
2 Many of my colleagues here today have mentioned that there
3 would be some function of revenue requirements or revenue
4 allocation as well as an opportunity for this ITC to comment
5 on things like planning on tariff development and so forth.
6 But I would have a tendency to agree with Sue in that that
7 ITC is, how did you say it, Sue? Independent. I don't
8 think I got it quite right, but very independent. And
9 essentially their function as an ITC is simply as a
10 consultant as it were to an RTO, which would have the final
11 authority or final decisionmaking authority.

12 Also with respect to the independence, I think
13 there needs to be in light of that the firm delineation of
14 what the RTO and the ITC functions are. My particular
15 vision is one that the ITC has very limited functions, as I
16 mentioned, more of a consultant. But I do think that in our
17 documents as we're developing now today and in the future
18 that we are very conscious and cognizant of delineating
19 specific tasks and responsibilities with the ITC and with
20 the RTO.

21 With respect to operational authority, we do
22 advocate a centralized system, probably one that is involved
23 with transitions, that is to speed up the RTO implementation
24 process that we would retain the existing control areas,
25 just again as a matter of continuing the momentum that we're

1 involved with right now that we advocate. But also develop
2 a transition program which allows the control area
3 footprints eventually to be parallel or equal to the RTO
4 footprint. That may be in sometimes we say day two or in
5 some transition period when those control areas go away.

6 Lastly, I'd like to comment on market monitoring.
7 We firmly believe that market monitoring should be
8 independent of the RTO function. The market monitor is
9 essentially, for lack of a better word right now, policing
10 the market as it were, and becomes a liaison of FERC. What
11 I mean by that is in their monitoring functions, they may
12 actually make recommendations to FERC for some type of a
13 punishment, some type of adjustment to policies and
14 procedures, but that market monitor would not have that
15 final authority for that responsibility itself.

16 We also think that the market monitor may have an
17 ability to suggest new products to best serve the market, to
18 ensure that the market remains transparent, that the market
19 remains liquid. Again, with the ultimate goal, even though
20 it sounds rather naive, but with the ultimate goal to
21 satisfy as many market participants as possible, including
22 the consumer group.

23 Those are the basic comments that I had regarding
24 the functions of Order 2000.

25 MR. MILLER: Thank you, Jane. At this point I'd

1 like to open it up to questions and I've got one first. It
2 looks like Nick, unfortunately, you were put in the position
3 of being the advocate on this panel for a for-profit model.
4 And the Commission I think over the years has struggled with
5 the idea of we recognize there are certain advantages that a
6 for-profit, someone who is focused on profit motive could
7 bring to the management of the transmission system.

8 But they do sometimes tend to clash with either
9 things that cross over into public interest issues. But
10 also one of the things that we struggle with is making sure
11 that we eliminate or mitigate the seams to as great an
12 extent as possible.

13 In your vision of enhancing grid management and
14 recognizing that -- I'll just posit a situation where your
15 footprint is not as large as an RTO. Isn't it possible that
16 the active grid management that you've laid out as a vision
17 could possibly create seams within the RTO in that the
18 transmission system could be run and managed differently in
19 one area versus the other and then could have cascading
20 effects elsewhere in the RTO?

21 MR. WINSER: I had sort of two questions, for-
22 profit and footprint not equalling the RTO. On the for-
23 profit element, I can speak only from my experience I guess
24 that I've seen great things done under a for-profit banner.
25 The absolute critical thing is to make sure that the

1 company's interest is absolutely aligned with the objective
2 function of the minimum cost for the customer.

3 And in everything I've worked on in terms of PBR,
4 that's always been the test I've applied to it. There
5 cannot be any doubt that if a truly focused management
6 drives for shareholder value that it also at the same time
7 drives down the cost to the consumer. And every program
8 that I've put in place under PBR has had exactly that
9 characteristic.

10 There's been some discussion here today or a few
11 mentions of FTRs. I'm a great fan of -- with a caveat --
12 I'm a great fan of LMP. I think that's an interesting
13 question about when LMP is appropriate and whether in some
14 circumstances it can lock out new entrants. But in general,
15 economic pricing should be embraced. And that's great for
16 generation and load serving giving proper incentives. But
17 then what it comes on to -- and this is back to your
18 question about for-profit incentives -- then we hear that
19 FTRs should be used to promote the expansion. We never hear
20 about greater efficiency, by the way, but expansion of grid
21 facilities.

22 And not only is there a massive free rider
23 problem here, which in all of the documents I've read is
24 always mentioned. Of course we know there's a free rider
25 problem. And then it just presses on. We never hear what

1 the answer is. And when you hear about capacity intensity
2 problem that I was referring to before, that free rider
3 problem is a real issue, because these transmission assets
4 serve -- you know, they're infrastructure. They're a
5 communal resource, at least in the center of the system.
6 The free rider problem, the problem is bigger than the
7 solution. The lumpiness of transmission investment make
8 FTRs as a way to promote transmission expansion very
9 difficult.

10 You know, it's not sensible to build 167
11 megawatts. You build a 2,000 megawatt line. That's how
12 this thing works. And FTRs as way to promote efficiency and
13 expansion really suffer on existing through routes, which I
14 think is where the real value proposition is.

15 But coming directly to your question, the idea of
16 giving -- this is an exact example of what you referred to
17 -- the idea of giving transmission companies the right to
18 sell the additional FTRs just strikes me as crazy in our
19 current situation. The principal characteristic of that
20 proposal is an incentive to not build enough, and if you,
21 oops, actually inadvertently build plenty, the principal
22 characteristic becomes, I'd better withhold it.

23 If you actually solve congestion, they're not
24 worth anything. And where I come from, I'm looking to sole
25 congestion because I think it's not much difference. You

1 know, you can't be too thin or too wealthy. You can't
2 really have too much congestion on a properly functioning
3 wholesale market.

4 On footprint -- so I wouldn't entertain that as a
5 for-profit company. I don't want an incentive which clearly
6 gives me the ability to fake my shareholders out of
7 customers. I don't think that will be solved. I just don't
8 think, you know, nobody's going to let me do that. So the
9 incentives have to be aligned, which is what I've always put
10 in place.

11 On footprint, it is my belief that there should
12 be a single market across a large area, and single booking
13 -- a British term of transmission facilities, a single
14 calculation of ATC as well. The fact that you have some
15 areas of that large footprint where transmission is being
16 run much better than others because you've got in place the
17 right structure in my view. Well, you know, I agree, it's a
18 problem outside of the footprint of let's say my company.
19 But, you know, it's better than not having any of it run
20 well.

21 (Laughter.)

22 MR. WINSER: So is this a seam that we're worried
23 about?

24 COMMISSIONER MASSEY: Nick, can I ask you a
25 question? I'd like Laura and Larry and others to comment on

1 this. Because what I hear some of the panelists saying is
2 that in Order 2000, our definition of market participant was
3 perhaps too narrow and that what we need to do is redefine
4 independence in a way so that independence means independent
5 of all market participants. And that includes anyone who
6 wants to sell demand side into the market, anyone who wants
7 to sell generation into the market, and also anyone who owns
8 transmission assets. Just fundamentally, do you agree or
9 disagree with the concept that a transmission owner, even if
10 it's an independent transmission owner, is a market
11 participant within the RTO?

12 MR. WINSER: I wouldn't call -- the way I would
13 see the structure working, I wouldn't regard the
14 transmission as a market participant. I see it as an equal
15 partner. Wholesale markets and transmission together are
16 the two components that you need.

17 And in terms of the mechanics, you know, all this
18 talk about transmission being competitive with generation
19 and demand, hey, the last thing I want to do is compete with
20 that. What I believe in is efficient price signals out
21 there, lots and lots of excellent market information out
22 there so that generators and demand can react to those and
23 take the opportunities.

24 I'm not seeking to compete. I'm seeking to be
25 the last resort. I believe that if you have efficient

1 signals out there, then generation and demand should have
2 first go at solving congestion. Am I making my point clear?
3 It's only if they don't find it economic to solve it that
4 there should be transmission built. And I believe that if
5 you get the right price signals and the right information
6 out there, that's the way the process should work. So I am
7 stepping right back from competition. I'm a last resort
8 solver of congestion.

9 You know, if people want me to compete, then
10 maybe I could make a lot more money on that. But I actually
11 think that's the right way that it should work.

12 And I think implicit in your question was about
13 the comments that have been made about passive ownership as
14 well. And if I could address that point. Yes, there are
15 huge problems to get to full divestiture, some of them which
16 we may not get a way for, the tax issues and so on. It's
17 going to be very difficult to get to that situation. But
18 several of the speakers referred to this issue.

19 But the choice is I think between having an RTO
20 with vertically integrated companies in charge of
21 transmission pressing the buttons, climbing the towers,
22 working on the lines, doing maintenance, and the same RTO
23 pretty much with an ITC doing some of those things. So you
24 go a step forward in independence, not a step back. And if
25 that step forward has to have some passive interest in the

1 short term, it still seems to me we're better off on the
2 independence scale.

3 COMMISSIONER MASSEY: I agree with that, by the
4 way. I think that to the extent generation is fully
5 divested from transmission ultimately the better off we are.
6 But that doesn't really resolve this question of who carries
7 out the RTO functions and whether they're carried out at the
8 subregional level or the regional level, and whether an RTO
9 function can itself be carried out by an entity that owns
10 transmission assets. It seems to me that is the fundamental
11 question that some of our panelists are raising here.

12 MR. WINSER: And my short answer is with in this
13 case at least transitional oversight from two perspectives,
14 the super regional perspective and to mitigate concerns by
15 independents. But the alternative is to not have
16 professional transmission companies in the game is my
17 belief. We are not in a world of picking the absolute
18 perfect solution. We're picking the best we can.

19 MS. MANZ: I'd like to jump in. I think we have
20 a couple of things going on here. We've heard a lot about
21 congestion being the poison. And I think one persons poison
22 is another person's glee. When we go to LMP, everybody's
23 competing to solve congestion, and that's what we're doing.

24 In the short term, we're doing it perhaps with
25 new technology on the transmission system -- phase angle

1 regulators, things that allow you to move power around in
2 any sort of way. And then we are definitely doing it in the
3 planning mode. And even as a backstop, if a competitor
4 knows that there's a backstop solution that's always going
5 to be there and it's going to be there, and it's going to be
6 very intrusive as I've heard suggested, then you may not get
7 good competition.

8 So I think we're kind of off track in a couple of
9 ways. First of all, we have ISOs that are for-profit. We
10 have asset owners that are for-profit. We have ISOs that
11 not-for-profit. We have asset owners that are not-for-
12 profit. So we're kind of all over the map here. But we
13 have a few essential questions that have to be asked as
14 we're thinking through the problem.

15 First of all, is this an essential function of an
16 RTO? That's question one. Let's assume we get to yes on
17 that one, okay? Because there are some transmission owners
18 that are saying we don't want to perform any essential
19 functions of the RTO, and therefore we don't think the
20 independence requirement applies. But let's say we want to
21 take on an essential function. Then the next question is,
22 should it be performed in an unbiased fashion? And I think
23 we can answer that unequivocally yes.

24 And then the next question is, does this entity
25 have any reason to bias a market outcome? And that would be

1 true in the short run in the spot market and also true in
2 the planning. And I think as we go through these, that's
3 that independence hurdle that has to be looked at, is that
4 if you are any sort of asset owner that has any reason to
5 bias a market outcome, even if you're last resort and you're
6 building on rate based rate of return, I know where to open
7 the breakers to make it look like we need a few more lines.

8 So this all has to be done under the direction of
9 a completely independent entity that has no reason to bias a
10 market outcome. And that entity could indeed be for-profit.

11 COMMISSIONER MASSEY: Mike and Sue, it looks like
12 you want to comment here.

13 MR. STUART: I just think the for-profit, not-
14 for-profit issue really is a bit of a red herring, as Larry
15 said earlier. We're talking about incentivizing the ITCs.
16 I really think that we ought to start, if we're going to
17 look at incentives, we ought to start looking at incenting
18 the RTO who's looking at the system as a whole and whether
19 it's for-profit or not-for-profit, you can look at providing
20 management incentives. PJM does that. The Midwest ISO does
21 that.

22 And get the incentives right from a regional
23 perspective rather than focusing on the incentives at a
24 subregional level. Because I heard what Nick said about
25 trying to get subregional incentives in place that are good

1 for the customer, and that sounds wonderful and I'm sure
2 that's the objective. But when you employ them in practice,
3 they just don't work the way that you anticipate. And let
4 me give you a quick example.

5 Throughput might be something that you try to
6 give people an incentive if they maximize throughput at the
7 ITC level. Well, how do you do that? You might give a
8 discount or you might increase your TTC number or something
9 to maximize the throughput through the system. But in doing
10 that and increasing the throughput through the ITC system,
11 you may create congestion someplace else on the system. So
12 what you just did in the name of incentive is to internalize
13 the revenue within the for-profit entity but externalize the
14 congestion and the cost of the congestion.

15 So if you're going to try to do to this, you have
16 to look at it at a higher level rather than letting some
17 subplayer decide how to do this.

18 And the other point on the for-profit and not-
19 for-profit that I think is worth mentioning is at the end of
20 the day, whoever is running the organization, whether it's
21 for-profit or not-for-profit, within their area, they're
22 going to be a monopoly provider. They're not competing with
23 anyone in that area.

24 MS. KELLY: I just want to get back to
25 Commissioner Massey's point about whether an ITC is in fact

1 a market competitor by the very fact that they own
2 transmission. I think that that is a possibility, and
3 that's one of the reasons that I recommended that the
4 planning process has to be run by an entity who has no stake
5 in any of this. Because that way, that ITC's proposed
6 transmission solution can be put side-by-side by the
7 solutions of other market competitors, be it demand-side
8 aggregators or generators, et cetera, et cetera. I think
9 that's the strongest place where that possible competition
10 could be a problem, and that's the way I've proposed to
11 address it.

12 I would also like to take the opportunity to
13 agree with Mr. Winsor on one point. I want to make sure
14 this got into the record. That FTRs as a way to incent
15 transmission expansion can be highly imperfect, because you
16 are chasing the rabbit. If you relieve the congestion, then
17 the FTR's value really goes down. So you are incented, if
18 anything, to do a partial solution that will prop up the
19 value of your FTR and not diminish it too much, which is
20 again why I place such a strong emphasis on a strong
21 regional planning process that has the ability to get
22 transmission that everybody needs built.

23 CHAIRMAN WOOD: We're kind of running out of time
24 and I was really wanting to drill deep because this is my
25 big dollar panel. There are some other big dollar panels

1 today, but this is the big dollar panel before lunch.

2 (Laughter.)

3 CHAIRMAN WOOD: I've got to watch that mouth of
4 mine.

5 (Laughter.)

6 CHAIRMAN WOOD: Larry Ruff said something
7 intriguing. I want to hear Nick's response to it, that the
8 RTO core function is one of administering an integrated
9 dispatch spot market function I believe you said based on an
10 LMP.

11 Nick, you said something a minute ago. Respond
12 to that directly. What is it that in your rack up of the
13 functions that you were so kind to leave with us that you
14 think an ITC needs to do that may overlap with what Larry
15 said is the core RTO function?

16 MR. WINSER: The one you specifically referred
17 to. I listened to Larry, and I was pretty much in
18 agreement, in truth. I think the dispatch of the market,
19 the LMP dispatch, certainly that's an RTO function. What I
20 can do to help that is drive up the capability assets so
21 that you can get a cheaper overall solution through that LMP
22 process.

23 And what that means is that I can do marvelous
24 things in the investment phase, the asset management phase.
25 But actually, you know where the congestion money gets

1 spent? It gets shoveled into power station boilers. And
2 that's where it comes down to it. So I can do the best
3 possible job in the world and free up lots and lots of
4 transmission availability, but if somebody doesn't dispatch
5 the system properly, then all of my hard work will be
6 wasted.

7 And I understand in this structural setup that it
8 seems the best way through are difficulties on this are for
9 those dispatch functions, the LMP dispatch, to be with the
10 RTO and I'd accept that. But I would be ever so anxious to
11 make sure it's done well, because all of the benefit I could
12 bring would be wasted by an organization that isn't doing
13 that well.

14 CHAIRMAN WOOD: If by taking either new
15 technology or better operations or you had three baskets of
16 20 things that you do good, if by doing that, you have in
17 fact generated a much greater availability of your system
18 that you're operating vis-a-vis the one right next door that
19 is not so efficiently run, what more than your ability to
20 control that throughput being 20 percent bigger than it was
21 under the old world do you need to do?

22 MR. WINSER: It's sort of about time scales. I
23 don't think I'm arguing I do need to do anything more, but
24 let me just check time scales. I want to have transmission
25 engineers that have intimate knowledge of that local system

1 monitoring congestion costs second-by-second, using short-
2 term ratings, using whatever strategic resources it has,
3 putting back circuits, going to short term, looking at the
4 models very carefully, make sure there's not a little bit
5 more could be done there than here.

6 And I'm just adding that because I'm just saying,
7 you know, this is a holistic approach for long term through
8 to short term. And what I have to be doing is then feeding
9 into the LMP process and saying actually I could see there
10 was some real congestion cost here. So what I've done, RTO,
11 is I've used short term rating. Used that to get that
12 generation off the system, because it's expensive.

13 I want to be responsible for things to do with
14 throughput. I don't want to run the market and I'm not
15 interested in generation dispatch, as long as it's done
16 well.

17 COMMISSIONER MASSEY: Can I ask a follow-up
18 question to Pat's question? And I'd like for anyone to
19 comment on this. But when you say you want to pump up
20 throughput, is your throughput someone else's congestion?
21 That's my question. If you create more throughput on your
22 subregional piece, are you going to create congestion
23 elsewhere? Or if you're going to pump up throughput on your
24 subregional piece, would some generator argue, well, he's
25 favoring his own transmission assets at our expense? And

1 I'd like anyone to comment on that. But that's really
2 what's on my mind here.

3 MR. WINSER: And this point I sort of made
4 earlier as well. I fully accept the need for the super
5 regional look at planning and the super regional look at
6 security coordination. It is no use at all for me to push
7 up throughput in real time on a particular circuit if you
8 just go across the border and there's another constraint.

9 Actually, technically, that probably is better,
10 because you've probably removed the constraints, but you may
11 would have got more generation into the market. But I
12 understand the point that you can't have ITCs just driving
13 the system with no thought to what's over the border.
14 That's why the RTO is so important in this and must have
15 those roles of overall security coordination and planning to
16 make sure all the plans fit together.

17 What I'm arguing is that the ITCs need to be
18 doing the hands-on stuff that otherwise vertically
19 integrated companies are probably doing, but doing the
20 hands-on stuff, driving up throughput, coming forward with
21 innovation in the planning phase, and arguing the case. I'm
22 used to arguing the case.

23 MR. MILLER: Larry, I think you were asking to
24 speak and then Laura.

25 MR. RUFF: Thank you. I agree with Nick that the

1 transmission owners ought to have the hands-on control of
2 the system. They ought to have incentives to try to get it
3 to work better. They should in most cases be for-profit
4 companies that stand to profit by doing that. The question
5 is, how really to do that in a way that doesn't lead to the
6 kind of suboptimization that you're concerned about. And it
7 is a real potential problem.

8 And I think I have to disagree with Nick when he
9 says that there's no real competition between transmission
10 and the generation and demand-side thing. I think his
11 statement that there can't be too little congestion says
12 right there that he's prepared to spend, if he can get the
13 incentives to do it, he's prepared to spend money to
14 eliminate congestion, even though it may be more economical
15 say to run a little higher cost generator a few hours a year
16 or for somebody to manage load.

17 And so by doing that, and if you give him
18 incentives to push it that far, he's going to be competing
19 against those alternatives.

20 MR. MILLER: Laura, and then we'll get Nick to
21 rebut. Then we've got some other questions we have to get
22 to.

23 MS. MANZ: I have a little bit of confusion when
24 we talk about throughput, because I'm an engineer, too, and
25 the way you get more throughput is to somehow increase

1 demand and supply, because they have to be in balance at all
2 times. The only other way you can do it is to start
3 wheeling power through the system in a way that's really not
4 very efficient. So I think we need to reshape what it is
5 we're trying to do.

6 We're trying to incent the asset owner -- and
7 this is true of generation also -- to maximize your
8 availability when the market needs it. That's what
9 generators ought to be doing. That's what transmission
10 owners ought to be doing. And when I hear something about I
11 can increase my component ratings, which I think is really
12 what we want transmission owners to do so that there's less
13 congestion on the market, then what I don't want to hear in
14 the next sentence is, and get that generator off the system.
15 That's not the role of the ITC or the local transmission
16 owner. That's the job of the RTO.

17 And so this is clearly competition in real time.
18 And we're all competing for the same goal, which is
19 maximizing availability.

20 And I also want to get one more part in here
21 which is about the FTRs and refer you back to the panel that
22 I was on, that we said indeed, FTRs, we're not going to give
23 you in real time the signal, but what we were doing was
24 selling those on a forward basis, and that was where the
25 market signals came in.

1 So I want to make sure that we refer back to that
2 whole discussion, because I think we got into it in some
3 great detail. Thank you.

4 MR. WINSER: Just in response to Laura's point.
5 I'm sorry if I didn't say this clearly. What I mean to say
6 was certainly that we would push up the transmission
7 capability and pick up the phone or more likely send
8 electronic signal through to the RTO, which would say, hey,
9 you've now got the opportunity to take that expensive
10 generator off the system.

11 It is, I agree with you entirely, the RTO's
12 responsibility to do that. But I must see where the money
13 is being spent so that I can optimize the network. My
14 response to Larry is, yes, I accept the perfect competition
15 economist model that there is a right number for congestion
16 and it isn't zero, although I would like to just reiterate
17 that I think that's in a perfect competition world, and this
18 is a world where the competition margin is often very, very
19 sparse. And as a first approximation, it's probably good to
20 drive it down as far as you can, especially when you
21 consider that transmission costs five percent of the end
22 consumer's bill and generation costs 40 to 60 percent. So
23 there's a big gearing issue here, that you spend a little
24 bit more here, and you can really attack the bulk of the
25 costs.

1 MR. MILLER: Let me ask a quick question, because
2 there are probably other panelists who want to ask
3 questions. Larry, you've seen the matrix that the National
4 Grid has put out. It sounded to me as if you were not --
5 and I think you were sort of hinting around this -- in wild
6 disagreement with most of this. And I'd be interested in
7 seeing some areas where you think are significant
8 differences.

9 MR. RUFF: Well, I think the main thing I would
10 say is I don't really understand how a subregional transco
11 would do some of these when the RTO is doing it at a higher
12 level. Nick knows more about transmission operations than I
13 do, so maybe he can say so.

14 But it seems to me the problems of a transco
15 dealing with security within a region when the RTO is
16 dealing with security for the whole region, I'm not sure
17 exactly what that means. So I'm not sure how that becomes a
18 transco function.

19 I think things such as managing congestion
20 through maximizing transmission service, unless it means, as
21 I said in my statement, things such as improving equipment
22 availability and so on and having incentives to do that, if
23 that's what it means, then I think that's fine. I'm not
24 sure I whether that's an RTO function that's being allocated
25 to the transco or just what you expect the transco to do

1 because that's its job.

2 But to the extent that this is suggesting that
3 things that are identified as RTO functions are being
4 shifted to the transco, I think I disagree with a lot of
5 them for this reason. I'm not sure how it works or that
6 it's a particularly good idea. Such things as reactive
7 power procurement and so on it seems to me an integral part
8 of the dispatch process, and I have trouble seeing how it's
9 done by the transmission owner.

10 MS. MANZ: Scott, when I looked at the matrix, it
11 looked to me like virtually all of those functions in there
12 required independence and belonged to an independent RTO,
13 with the exception of the ones that required information
14 gathering. And so you have certain asset owners with
15 information that have to give that over to the RTO. But
16 then in the larger framework, everything else that needed
17 independence looked like it needed to be with the RTO.

18 MR. MILLER: Nick?

19 MR. WINSER: Some people do train spotting and
20 some people collect stamps. I go around the world visiting
21 control rooms, I'm sad to admit.

22 (Laughter.)

23 MR. MILLER: Are you seeking help?

24 (Laughter.)

25 MR. WINSER: I have sought help.

1 (Laughter.)

2 MR. WINSER: And the answer to Larry's question
3 is that I can only think of one country where there isn't a
4 tiered structure to system control. Because mostly these
5 are very large areas, and you would tend to have a tiered
6 structure where the top level takes an overview but doesn't
7 drill right down into the detail of the assets. It looks at
8 broadly the flows coordinating between regions. Then you
9 get a number of control areas underneath. It's the same
10 everywhere except actually now the U.K. because we did away
11 with it to a single tier.

12 But, you know, that's a small territory. This is
13 a very large territory, and it's very difficult as an ex-
14 control engineer to see how you can get away from that
15 tiered control.

16 The lower tiers will gradually focus more and
17 more on the detail of what can be done on that little bit of
18 string through there to opening and closing, enhancing the
19 system. We'll have a more detailed computer model of the
20 system. Let's go back to the case of the Midwest ISO,
21 assuming for a second Alliance in, 170 gigawatt system, a
22 massive amount of transmission. You can't run a model of
23 that system in detail even today with the computing power
24 that you've got.

25 So these things will work as a top level view

1 with the main throughputs being modeled at the main critical
2 circuits and then more detail as you come down. The
3 question is, as you come down that tiered level, do you want
4 somebody as independent as National Grid, even albeit with
5 passive ownership issues, or do you want the vertically
6 integrated companies that own generation doing that?

7 MR. MILLER: Mike, quickly, because I think we've
8 got some other questions.

9 MR. STUART: Two comments quickly. When I look
10 at the National Grid checklist, it looks to me like they
11 want to relate to the Midwest ISO as a side-by-side partner,
12 much like two adjacent RTOs that would be called one because
13 they have one name. And I think that that's where we get
14 into the problem where we start splitting functions
15 internally that ought to be done by one entity for
16 efficiency purposes.

17 The other point I'd like to make is I think
18 people have been talking around an issue that I think is
19 pretty critical, and that is the throughput versus
20 congestion issue. As RTOs get larger, more and more of the
21 transactions on that system convert to network service. So
22 the point-to-point transactions on the system diminish so
23 that all of a sudden the throughput on the system is a
24 function of load, it's not through system transactions.

25 The throughput is going to be the throughput.

1 The efficiency gains is through managing the congestion and
2 minimizing it and that's why I said I think the congestion
3 ought to be managed at the RTO level. I think the real
4 fundamental issue that we're getting to is does congestion
5 management belong in an ITC or does it belong as part of a
6 regional function?

7 And I vote for managing the congestion at the
8 regional function. Because if you manage it at the local
9 level, managing your congestion there always has impacts on
10 other parts of the system, and you may not be doing it in an
11 efficient manner from a regional perspective. It has to be
12 done regionally so that you're looking at minimizing the
13 congestion across the system, not within a region of the
14 system.

15 MR. MILLER: I'm reluctant to cut off the back-
16 and-forth, but Nick, did you have something?

17 MR. WINNER: Yes. Thanks. Congestion management
18 for me has two different parts which are being confused in
19 this debate. Congestion pricing, I've no argument that the
20 RTO should run that. That's absolutely right. That's about
21 LMP.

22 Congestion management I'm talking about real
23 management focus on driving up the throughput on the system
24 and looking for some PBR to do so. And I very much accept
25 the point that's been made that those PBRs need to fit

1 across the regional area. I would make a slight point that
2 removing congestion anywhere is good, but clearly, moving
3 congestion in a way that's coordinated across the area is
4 even better. And those PBR arrangements must be designed
5 carefully so that you are not, if you like, given dollars to
6 my shareholder which actually ultimately relate in a much
7 smaller number of dollars to the end consumer. That's
8 something we need to work on the detailed design on. That's
9 a good point.

10 MR. MILLER: Kevin?

11 MR. KELLY: A question for Mr. Winsor. Sorry to
12 direct them all at you. I liked the way you divided up the
13 market functions to the RTO and the transmission functions
14 to the ITC. But some of your checkmarks confused me and I
15 just wanted to ask you about one. You have a checkmark in
16 share with ITC under parallel pathflows and calculating ATC,
17 which I view as two sides of the same coin.

18 And I have a specific situation in mind where you
19 have situations in the summer where northern coal sells
20 south and alternate days, southern gas sells north, where
21 the north stretches from Western Pennsylvania say to
22 Illinois and the south stretches from Alabama to East Texas.
23 And you have multiple paths that the power can take, east of
24 the Alleghenies or between the Alleghenies and the
25 Mississippi or west of the Mississippi. And it seems even

1 with large RTOs we'll a northern RTO and a southern RTO,
2 perhaps more RTOs. And on the odd days, some of the flows
3 will go through the Northeast and Ontario, too.

4 This is coordinated now at a NERC level of
5 looking at the entire Eastern Interconnection. And if you
6 have two to four RTOs involved in that, what does it mean to
7 additional involve, perhaps every hour, several ITCs within
8 a RTO? It seems to me very complicated. Perhaps you mean
9 something simple by putting a checkmark in share with ITC,
10 but I'd like to ask you how that works. In other words,
11 what does the ITC do in addressing parallel pathflows of
12 that magnitude and in calculating ATC on that regional
13 scale?

14 MR. WINSER: The ITC inputs helps the RTO in
15 doing that coordination, talks to the RTO, says what are you
16 seeing? These are the issues that we're seeing. Would it
17 help if we freed up some more throughput on a particular
18 route? You have a look at the overall super regional
19 perspective. Let us know if that's going to help soften
20 these things cost money, if it's sitting contractors in a
21 shed drinking coffee instead of going out and working on the
22 lines.

23 We would be very responsive to the RTO in that
24 role. The RTO must coordinate all that on a super regional
25 area, and we shouldn't have more balkanization.

1 I would finally comment on that, though, that I
2 think what we're facing here, I mean, let's take the
3 Alliance example, if the Alliance can get up and running in
4 the sort of form I'm suggesting, in some sense there will be
5 less parties in the game, because otherwise they would be
6 talking to nine transmission companies and actually they'll
7 just be talking to us. And so you've actually improved the
8 situation, albeit there's still plenty of parts at the
9 table, but less than there would have been.

10 MR. KELLY: Just to follow up, if the RTO and the
11 ITC get into disputes over some of these coordination
12 activities, who has the final say?

13 MR. WINSER: The RTO. And I would certainly
14 argue for a dispute resolution process because I don't want
15 to find that I'm killing myself to drive up throughput and
16 it's not being used. But the RTO should have that right in
17 the control timed scales. I would wish to appeal if I
18 thought that the system was being underused.

19 MR. MILLER: Steve, I think you had a question.

20 MR. RODGERS: Yes. I had a question about a
21 comment that I think I heard Mike make and also that Sue
22 later echoed, and that is that if the ITC is not doing its
23 job with certain functions that it's been delegated, that
24 the RTO should have the ability to jump in and reclaim that
25 authority to make sure those functions were performed

1 properly.

2 I had a two-part question. One is would the
3 RTO's ability to jump in and do that impede the ITC's
4 ability to attract capital to do its job? And secondly,
5 were you proposing that the RTO would be delegated this
6 responsibility apart from FERC review?

7 MR. STUART: To answer the second first, I think
8 there would be FERC review of this. The real point of what
9 I'm saying is you can't presume on day one that all of this
10 is going to work and just split the functions and find that
11 you don't have a way to recapture when it's working. If
12 it's not working and the system is going to suffer, you have
13 to have a way to pull back what you're doing at the RTO
14 level.

15 In terms of will that affect the ability to
16 attract capital, I don't believe so. You can look at the
17 American Transmission company as an example. They've got a
18 very major construction program planned, and they say
19 they're going to meet that plan and be able to attract the
20 capital as long as they earn returns commensurate with
21 risks. So I don't think that's the issue.

22 MS. KELLY: I think my answer is much the same as
23 Mike's. I think FERC review would be appropriate before
24 that function would get taken back.

25 As for the attraction of capital, if the terms of

1 the deal are, if you do a bad job, it's subject to being
2 taken back after FERC review, I would think that that would
3 not impede the attraction of capital because if you think
4 they're going to do a bad job and that the function will be
5 taken back, you won't invest in the first place.

6 MS. MANZ: I have another way of looking at the
7 problem I think. We may want to ask ourselves, what are the
8 functions that an RTO would delegate to a group of asset
9 owners? And then we ask ourselves would they also delegate
10 it to the generation owners or would they delegate it to the
11 demand-side owners? So I think we need to be very careful
12 about what are these functions that might actually be
13 delegated to a group of asset owners, and then what would it
14 mean to take it back. And I'm a little unsure where we're
15 going to go with that one.

16 MR. MILLER: There is a temptation to go further
17 with this, but we have other panels that we don't want to
18 give short shrift to because their time is limited as well.
19 I will say in closing there is one aspect that Nick raised
20 that I would say is very interesting, has not been raised,
21 at least in my mind before, and that is the management of
22 congestion as you define it, which is not the administering
23 of LMP, can have the effect of increasing the
24 competitiveness of generation in certain areas because,
25 depending on where you are on the dispatch curve, it can get

1 awfully thin in terms of generation is competitive and can
2 increase market power issues.

3 I think that's something in terms of your concept
4 of congestion management that is interesting, and I would
5 invite anyone who is interested in that debate on one side
6 or the other to file comments, follow-up comments before
7 march 12th.

8 CHAIRMAN WOOD: Along with that homework
9 assignment he just gave you, I'd like to ask the members of
10 this panel if you're interested. The prior presentation by
11 Donald Benjamin of NERC did a breakout of all the different
12 area presentations in which we heard about reliability
13 authority, interchange authority, transmission service
14 provider, planning authority I think would be the core ones
15 that we're talking about in this debate. It would be
16 helpful, and I think it's kind of point-counterpoint would
17 be helpful to actually hear. So if you don't mind kind of
18 maybe getting one in earlier than the rest, one of these
19 breakouts of the control area functions. Did you all get a
20 copy of this yet? We'll give you one.

21 MR. MILLER: In the back there are handouts now.

22 CHAIRMAN WOOD: Grab six before the world grabs
23 them and give them to these folks.

24 MR. MILLER: They're on the bad side of the
25 congestion point.

1 CHAIRMAN WOOD: There's a busy map on here,
2 really busy, and it might be better to give you all a bit
3 different, but it describes the interrelationships between
4 these in a way that you're not familiar with the
5 terminology. It definitely did help me. It would be real
6 useful to find if there's any disagreement as to who does
7 these functions in a world where you have an independent
8 transmission company under an RTO umbrella, as to which of
9 these duties might be performed by the ITC instead of the
10 umbrella.

11 So I would appreciate, Nick, particularly, if you
12 could look at that and maybe get something in early, just
13 kick it around and think about it, and if you all could
14 respond. Other parties are certainly invited to do the
15 same. That may help, because they've drilled down pretty
16 deep in a different way, and I know Larry had some problems
17 with kind of relying on the older Order 2000 breakout since
18 it was kind of moved onward.

19 So I would share that. If this is a good
20 template to use. I'm not necessarily saying it is. I guess
21 I'd welcome your thoughts on that as well. But for trying
22 to funnel everybody and really discern what your differences
23 are. I'm slightly disappointed that I didn't really get in
24 my mind a list of here's what an ITC, at least one that's
25 coming before us wants, and here's one that these people

1 think about and have and why I didn't get that, and I'm
2 sorry I didn't, but we'll find a way to get it in some
3 regard. But details matter, and we're kind of at that phase
4 right now.

5 MR. MILLER: Thanks. We should everyone plan on
6 being back at 12:35.

7 (Whereupon, at 11:35 a.m. on Tuesday, February
8 19, 2002, the conference recessed, to be reconvened at 12:25
9 p.m. the same day.)

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AFTERNOON SESSION

(12:40 p.m.)

(Pause.)

This morning we talked about the NERC functions and had a national debate on what we referred to as the slice and dice issues. And as I stated, this afternoon we'll be focusing on more of the regional issues and how it relates to each of the regions we've identified. I would just like to note before we start that, as the Chairman

1 pointed out this morning, the details matter. And hopefully
2 this afternoon we can focus on the details of the slice and
3 dice issue.

4 With no further statements, we will start. And
5 William Phillips, if you'd start out, I'd appreciate it
6 please.

7 MR. PHILLIPS: Good afternoon. My name is Bill
8 Phillips, Vice President of Operations for the Midwest ISO.
9 I wish to thank the Commission for the opportunity to
10 contribute to this discussion on behalf of the Midwest ISO
11 and it's stakeholders.

12 As part of the Midwest ISO's vision and charter,
13 stakeholder involvement was mandated. This essential
14 characteristic was included in the founding documents
15 establishing an advisory committee of stakeholders that
16 provides direct input to our independent board of directors.
17 Stakeholder involvement has continued through the
18 development of Appendix I-Flexible Membership Agreements and
19 Seams Coordination Arrangements With Other Interconnected
20 Entities. For this reason, my comments are heavily
21 influenced by the views of our stakeholders.

22 Appendix I of the Midwest ISO Transmission
23 Owners' Agreement allows for the formation of independent
24 transmission companies under the umbrella of the Midwest
25 ISO. The Midwest ISO has one FERC approved Appendix I

1 member, Detroit Edison's International Transmission Company,
2 and has an Appendix I filing where the TRANSLink Independent
3 Transmission Company, pending a FERC decision. These two
4 Appendix I agreements reserve essential RTO responsibilities
5 and functions for the Midwest ISO. Further, the proposed
6 allocation of functions between the RTO and the ITC does not
7 undermine the goal of a single energy market. There is no
8 pancaking of rates for transactions that originate in an ITC
9 region of the Midwest ISO, and sink in a non-ITC region.
10 The same is true for the reverse. The Midwest ISO tariff
11 prevails for these types of transactions, thereby promoting
12 the goal of a single energy market.

13 We believe our experience in working with these
14 entities make us uniquely qualified to offer insights to
15 today's discussions. I will initially offer brief comments
16 on the topics of reliability, tariff administration,
17 congestion management, planning and market monitoring.

18 With regard to reliability, the stakeholders in
19 the Midwest ISO believe it is essential that the RTO be the
20 single reliability authority formerly known as the security
21 coordinator. In making this statement, I am referring to
22 the responsibilities and authorities specifically defined by
23 NERC Policy 9 for all reliability authorities and also
24 identified in the RTO's NERC approved security plan. We
25 fully embrace the concept of a tiered approach to the

1 control of the network but regional oversight must be
2 completely under the management of the RTO. The RTO must
3 have the authority to direct the actions necessary to
4 protect the security of the network. Disputes may occur but
5 the RTO must always prevail during any period of dispute
6 resolution.

7 Having said that, the Midwest ISO believes that
8 transmission-only member organizations must be involved in
9 defining the operating capabilities of their facilities.
10 Utilizing critical information from our member systems,
11 including ITCs, is an important element of the tiered
12 approach. Such information includes equipment ratings based
13 on real time conditions, load forecasts, operating guides,
14 maintenance schedules, and power system modeling data. In
15 the final analysis, however, our stakeholders expect that
16 the RTO will evaluate this information for accuracy, will
17 coordinate between entities to maximize market
18 effectiveness, and will ensure that all such information and
19 data issues are consistently fair and accurate regarding
20 market participants.

21 Regarding tariff administration, the MISO
22 affiliated ITCs have already filed with the Commission
23 proposed tariffs that would apply only within the boundaries
24 of the ITC. In the case of Detroit Edison's International
25 Transmission Company, the customers are provided the option

1 on an alternative tariff for consideration in addition to
2 the Midwest ISO tariff.

3 In the case of TRANSLink, their proposed tariff
4 would apply to all transactions that source and sink within
5 the TRANSLink footprint. The Midwest ISO has indicated that
6 both of those arrangements are workable, assuming the
7 Commission approves the additional tariffs.

8 While not necessarily satisfying all the concerns
9 of all stakeholders, we are however convinced that most
10 stakeholders would expect certain principles to still be
11 observed. The RTO must make all ATC and AFC calculations
12 used for the determination of transmission service under all
13 tariffs and post resultant numbers on the OASIS. All
14 reservations, schedules, and other necessary data must be
15 shared on a real time basis in order to assure the accuracy
16 of the calculated capability. A common methodology must be
17 used throughout the RTO footprint for the determination of
18 TREMs and CBMs.

19 Transactions which do not source and sink within
20 the boundaries of the ITC must fall under the RTO tariff and
21 must be fully administered by the RTO. Losses must be
22 calculated and distributed in the same manner under each
23 tariff. In addition to these principles, the RTO is
24 expected to be the only OASIS service provider for each of
25 the tariffs, while allowing each to have its own page on a

1 single OASIS node operated by the RTO. This ensures
2 efficient sharing of reservation information and accurate
3 coordination of queues. The use of common electronic
4 scheduling systems for schedules under each of the tariffs
5 would also be desirable as this would ensure a common
6 interface and accurate sharing of schedule data regardless
7 of who authorizes the schedules.

8 The Midwest ISO has agreed that having an ITC
9 perform certain tariff administration functions under its
10 tariff is workable, including developing new product
11 offerings, approving requests for reservations based on AFC
12 calculations provided by the RTO, providing control area
13 schedules for all areas involving the ITC. Providing
14 transmission provider approval for all schedules under the
15 ITC's tariff. Making discount decisions on service provided
16 under its tariff. Deciding and filing pricing terms.
17 Billing for services under its tariff and determining
18 revenue allocation to the members of the ITC.

19 Regarding congestion management, the Midwest ISO
20 stakeholders expect development of a single market-based
21 congestion management system to be provided across the
22 entire RTO footprint. This concept is critical and has this
23 far been an accepted premise. We recognize the need for
24 local and subregional control authorities to take congestion
25 management actions under emergency conditions or to address

1 local conditions. However, a single market-based congestion
2 management approach ensures that all loads have equal access
3 to all resources for the resolution of congestion. This is
4 especially important for very intertwined networks that may
5 exist between an ITC and non-ITC facilities.

6 Operationally challenges may still exist when the
7 same facilities are impacted by reservations under differing
8 tariffs. But greater efficiencies and consistency can be
9 achieved by having one administrator of a market-based
10 system with one set of calculations and one database. Any
11 redispatch costs that are required to continue the provision
12 of firm service under either tariff will still be allocated
13 in accordance with RTO cost allocation procedures ensuring
14 consistency and comparability to all customers of all
15 tariffs within the RTO footprint.

16 With regard to planning, the ITCs should
17 participate in the RTO planning process in the same manner
18 as any individual transmission owner while recognizing that
19 their contribution to the planning process most likely will
20 involve a significantly larger geographic area. The Midwest
21 ISO uses a bottoms-up/top-down process where each
22 transmission owner develops its individual plan based on
23 detailed knowledge of local conditions. These individual
24 plans are then rolled up to the regional level, sometimes
25 including an intermediate subregional review. The RTO must

1 have the responsibility and the authority to evaluate the
2 consolidated plans, to coordinate revisions where greater
3 efficiencies and effectiveness can be achieved and to
4 approve a final RTO regional expansion plan. We see nothing
5 unique to this process regarding the ITC's participation and
6 responsibility.

7 With regard to market monitoring, universal
8 agreement appears to exist that the market monitoring
9 function must extend across the full footprint of the RTO.
10 The addition of independent transmission companies to an RTO
11 is not expected to change this. However, a portion of the
12 market monitoring responsibility must include an evaluation
13 over time of any adverse impacts created by multiple tariffs
14 within the same region.

15 In summary, the Midwest ISO is in favor of the
16 so-called binary model of an RTO. That includes independent
17 transmission companies. These entities should be able to
18 participate in an RTO in such a way that best supports their
19 business model. However, such a model should not jeopardize
20 the RTO's ability to provide reliable and non-discriminatory
21 access to all customers. In addition, the cost of duplicate
22 systems should be avoided when they do not add value to the
23 market.

24 Again, I appreciate the opportunity to address
25 the Commission on behalf of the Midwest ISO and I'll do my

1 best to answer any questions that you may have. Thank you.

2 MR. McLAUGHLIN: Thank you, Bill.

3 Joe Welch?

4 MR. WELCH: Good afternoon Commissioners and
5 staff. My name is Joseph L. Welch. I'm the President of
6 the International Transmission Company. International is a
7 transmission-only subsidiary of DTE Energy Company.

8 I appreciate this opportunity to share my
9 company's thoughts on the so-called slicing and dicing
10 issues. Recently, this Commission approved a precedent-
11 setting arrangement between the Midwest ISO and
12 International Transmission. This contract based arrangement
13 is, to my knowledge, the first of two parties splitting
14 functions between an RTO and another transmission entity.
15 International is also distinctive in that for over two
16 years, I helped develop and worked with the Alliance. This
17 qualifies me to see both RTO models from a unique
18 perspective. I have followed the Commission's instruction
19 set and filled out the matrix and provided written comments
20 to the Commission's questions and filed comments later.

21 I would like to make two points today that are of
22 critical importance to Michigan customers. These two points
23 should be used as the lode star guide to the Commission's
24 action on slicing and dicing. My first point is there
25 should be a strong presumption against RTOs owning assets,

1 and I'm talking here about transmission assets. Similarly,
2 entities which own or control transmission assets should be
3 given RTO functions sparingly and only after a showing of
4 independence from market participants. In the Midwest, for
5 example, International strongly believes that the Alliance
6 should not be permitted to become a mini-RTO within the
7 Midwest RTO.

8 My second point, independent transmission
9 entities should only exercise RTO functions which are
10 critical to the creation of a stand alone transmission
11 business. The Commission should only promote this
12 flexibility upon a showing that certain criteria have been
13 met. In particular, applications should demonstrate that
14 stand alone transmission businesses will benefit local
15 customers and not harm others.

16 I will now elaborate on these two points. Number
17 one, it is important that transmission asset owners are only
18 given limited RTO functions. There are very good reasons
19 for this because asset owners have fiduciary duties to
20 maximize their value. They cannot be given full discretion
21 over public interest and/or market RTO functions. It is
22 very hard to believe that an asset owner can impartially
23 discharge public interest or market RTO functions and also
24 faithfully meet the fiduciary obligations to maximize asset
25 value. Thus, for example, an asset owning RTO or many RTOs

1 could set ATC, tariff policies and regional rates to favor
2 its assets. This asset-owning RTO or mini-RTO could also
3 plan the system and set loop flow mitigation policies to
4 favor its own assets.

5 Transmission RTOs or mini-RTOs with growth
6 strategies also have the incentive to manipulate outcomes in
7 the asset market. The transmission-owning RTO or mini-RTO
8 can manipulate dispatch queues even if subtly to benefit
9 its transmission assets and devalue other transmission
10 assets.

11 Even more insidious is the transmission owning
12 RTO or mini-RTO can devalue the generation and/or
13 distribution of directly integrated companies in the region.
14 The transmission-owning RTO or mini-RTO can do this even if
15 it sought to be a transmission only business. For instance,
16 National Grid wants to become a transmission only company
17 but has purchased vertically integrated utilities and is
18 attempting to break them up in order to reach their business
19 plan.

20 Proponents of asset-owning RTOs or mini-RTOs,
21 such as Alliance and National Grid, have argued that the
22 Commission can police this behavior. This is true but such
23 an approach would be very inefficient and would lack the
24 confidence of stakeholders. It also lacks merit. In fact,
25 this approach goes against the very foundation of Order

1 2000. Order 2000 was intended to remove incentives for
2 gaming. Order 2000 chose the RTO as a structural fix.

3 The better course is to establish market rules
4 and RTO structures now which promote self-policing
5 arrangements. One such structure is the wires code
6 arrangement established by International and the Midwest
7 ISO. International and MISO used Appendix I as the model.
8 However, International will have far less discretion than
9 was originally contemplated under Appendix I.

10 International and MISO will share only three
11 limited RTO functions. These functions will be shared only
12 when International becomes fully independent. For market
13 participants these functions are, one, local tariff control,
14 two, coordinated planning with MISO, and three, coordinated
15 maintenance scheduling. We think these functions are
16 necessary to run a viable transmission business as
17 structured. However, these functions cannot be used by
18 International to gain the outcome in either the commodities
19 or asset market.

20 To summarize my first point, there should be a
21 strong presumption against asset-owning RTOs or mini-RTOs
22 such as the Alliance. It is proposed that the Alliance will
23 be run by National Grid. National Grid currently owns
24 market participant assets and serves load in neighboring
25 areas of the eastern interconnection. Furthermore, it is

1 also proposed that the Alliance companies, which are market
2 participant vertically integrated utilities, may own passive
3 shares in Alliance/Transco and may sign operating agreements
4 with the Alliance/Transco. The Commission should find that
5 only transmission entities, which are independent from
6 market participants, may take on limited RTO functions. The
7 Alliance has failed to make this showing as an entity which
8 will be under the umbrella of the Midwest ISO.

9 In sum, organizations, such as the Alliance,
10 should not be permitted to become mini-RTOs within broad or
11 regional transmission organizations such as MISO.

12 Number two, the Commission should authorize RTO
13 functions for independent transmission entities only upon a
14 showing that the local customers will benefit and other
15 customers will not be harmed. In addition to independence,
16 an applicant should be required to demonstrate, for
17 instance, that the needs of its customers are best met by a
18 stand alone transmission provider. The State of Michigan is
19 a perfect example of an area with specialized customer
20 needs. The following factors set Michigan apart from the
21 rest of the Midwest. These factors demonstrate that a stand
22 alone transmission provider is appropriate for Michigan.

23 First, Michigan is two peninsulas. The lower
24 peninsula of Michigan, to which I am speaking, has only two
25 significant interfaces with the United States in the

1 southern part of the state.

2 Two, the lower peninsula of Michigan is
3 geographically situated on a north/south axis above the
4 prevailing trading patterns in the midwest. The lower
5 peninsula of Michigan relies on the two southern interfaces
6 to meet all of its reliability criteria at times of system
7 peak. The lower peninsula of Michigan has been historically
8 operated as a tight pool. The lower peninsula of Michigan's
9 customers have enjoyed the benefits of non-pancaked rates
10 since 1996, well prior to Order 2000. Currently, the lower
11 peninsula of Michigan has no internal transmission
12 constraints. All transmission constraints lie external to
13 the lower peninsula. This additional transmission
14 infrastructure is critical to support a fluid market into
15 and out of Michigan's load pocket.

16 Michigan experiences one of the nation's worst
17 loop flow problems called the "Lake Erie Loop Flow Effect."
18 This loop flow travels around the Great Lakes through Canada
19 and is caused by Midwest Power trades to the south of
20 Michigan. These factors demonstrate why a stand alone
21 transmission business with a Michigan focus is appropriate
22 for the state. The Midwest ISO has stated that it cannot
23 meet all of the local needs, specialized needs of all
24 customers in states such as Michigan. The Midwest ISO
25 cannot possibly focus all its attention on getting

1 transmission built for Michigan customers or fixing
2 Michigan's loop flow problems without the help of a stand
3 alone transmission business.

4 As a stand alone transmission business,
5 International believes it can successfully partner with
6 MISO. The partnership arrangement is now established in a
7 contractual arrangement approved by this Commission.
8 International will be a proactive force necessary to address
9 the needs of Michigan customers. These customers needs are
10 best addressed by stand alone transmission businesses as
11 economic drivers directly aligned with the needs of the
12 customers.

13 In sum, the Commission should require the stand
14 alone transmission companies to demonstrate how they will
15 promote benefits for local customers in conjunction with the
16 umbrella RTO. One final note. Michigan's status as a
17 north/south peninsula above the prevailing midwest trading
18 patterns has made International extremely interested in the
19 terms upon which Alliance will join the Midwest ISO. This
20 joinder has been directed by the Commission. International
21 and its customers can only access Midwest markets through
22 those two interconnections. Both interconnections are
23 currently with the Alliance Companies. If Alliance are
24 granted the rights to own transmission assets, in addition
25 to controlling the grid managing congestion, setting ATCs,

1 establishing regional rates, planning transmission and
2 continuing to sell discounted transmission, while imposing
3 loop flows on the Michigan systems, Michigan customers will
4 be harmed.

5 In sum, and in contrast, my company believes that
6 Michigan customers will be best served by a stand alone
7 transmission business within a border regional RTO. As
8 described above, this structure provides the best means of
9 serving the needs of Michigan customers and will ensure that
10 asset owners do not take on important RTO public interest
11 and market functions. I look forward to your questions and
12 discussion to follow. Thank you.

13 MR. McLAUGHLIN: Thank you, Joe.

14 Audrey?

15 MS. ZIBELMAN: Thank you Commissioners, thank you
16 again for having me back. My name is Audrey Zibelman, Vice
17 President of Transmission for XCEL Energy. Also chair of
18 TRANSLink which is also proposing to be an ITC in the
19 Midwest. Just a couple of minutes.

20 I think, as I listened to the panels this
21 morning, there's a lot of good dialogue. What I'd like to
22 do is focus my comments today on some of the questions that
23 were raised. Before I do that, I want to preface it again
24 just to remind the Commission and Commission Staff that
25 TRANSLink is currently made up of six different companies.

1 We have both investor-owned utilities and public utilities.
2 A lot of the comments today is I want to get away from this
3 for-profit versus not-for-profit.

4 The role of TRANSLink and what we're trying to do
5 is recognize that we want to link ownership and operations.
6 As my for-profit partners are already reminding me, my
7 public partners, it's not the for-profit piece that's moving
8 them into an ITC. It's the ownership and operations. In
9 addition, in terms of what TRANSLink is looking at, we're
10 going to be operating close to 29,000 miles of transmission
11 in 15 different states across the eastern and western
12 interconnect covering 200,000 square miles. Those are the
13 types of issues we need to deal with in the Midwest. Having
14 a very broad geographic expanse over many states, and states
15 that have not necessarily embraced retail wheeling and are
16 concerned about what all this change means to them, it's in
17 that context that I agree with Joe that ITCs are going to
18 provide a lot of value to the Midwest and to MISO.

19 The fact is that what we're going to be doing is
20 focusing on the subregional issues, looking at regional
21 planning within our footprint, dealing with that bridge
22 between the state concerns and what the FERC is trying to
23 accomplish in terms of regional competition, and dealing
24 with local operations.

25 Again, given the breadth of MISO, it's going to

1 be impossible for MISO to get there without the help of ITCs
2 and we see ITCs like TRANSLink providing that important
3 bridge. Within that context then, I'd like to talk about
4 what functions we believe that we should perform as a
5 transmission company. To put that into context again, I
6 think it's important to understand what roles do we see that
7 TRANSLink is going to have and ITCs have to have. Like any
8 company, what we're trying to do is provide value to the
9 market and we're trying to provide value to what we see as
10 our three primary constituents.

11 The first is customers. TRANSLink's role as an
12 ITC is to provide customers access to competitors. There
13 was some discussion this morning and Commissioner Massey, I
14 believe you asked the question is transmission a competitor
15 to generation. I don't think it is. I think transmission
16 is the transport vehicle. Our goal was to provide customers
17 access to generation. Under the model we have proposed, we
18 don't make any more money in terms of, as a transmission
19 owner, and in terms of revenues. What we're trying to do is
20 basically make sure that we're maximizing throughput and
21 providing customers the basic ability to get to competition
22 so competition can exist. In my mind, there's a very
23 different relationship.

24 The second issue, the second constituent for us
25 is our shareholders. Again, when we're looking at

1 functionality, we have an obligation to our shareholders to
2 make sure that we're giving them a fair return on their
3 assets. If they are making investments that we have
4 reasonable control over the investments to make sure that we
5 can control the risk. Like any company, we need to make
6 sure that the prices that we're charging are the type of
7 prices that our investors expect us to charge in order to
8 give them a fair return and also to make sure that decisions
9 aren't being made about the assets that compromise their
10 value.

11 The third major constituent for us is our
12 employees. I listened to Nick this morning talk very
13 eloquently about the goal of an ITC about trying to get that
14 passion. I'm looking at how well you can operate the grid.
15 In my mind, Nick Winsor is exactly the type of employee that
16 we're going to want for TRANSLink.

17 (Laughter.)

18 MS. ZIBELMAN: What we're trying to do is create
19 a company where people want to work there, where they see
20 that their role is providing transmission service. We can't
21 do that unless we have the right functions to engage them to
22 make sure they understand their job is to provide service to
23 customers. Their job is to provide a fair return to
24 shareholders, and that they have the functions that allow
25 them to do that. So it's within that context then that what

1 I'd like to do is turn to your grid and talk about
2 specifically then how we see what those functions play in
3 terms of independence. We'll talk a little bit about this.
4 I think independence is certainly necessary for both an
5 independent transmission company as well as an RTO, but the
6 route to independence isn't necessarily only divestiture.
7 Again, we have public participants. If this Commission
8 makes divestiture a key note for creating an independent
9 transmission company, you'll lose the public power
10 participants in the Midwest, and they won't be part of any
11 entity. So I think we need to be very careful about that.

12 In addition, states have different concerns. We
13 heard about how Michigan was interested in creating
14 independent transmission companies, the same as with
15 Wisconsin. Not all states are there. Therefore, we need to
16 have different routes to independence other than
17 divestiture. The program we're proposing is having an
18 independent board and a management corporation that's
19 absolutely separate from the transmission companies, and
20 having the participants with essentially no authority other
21 than the extraordinary authority such as you mentioned that
22 General Electric has with respect to TRANSLink to make
23 decisions. To us, that's a different route to independence.
24 It needs to be there but divestiture can't be the hallmark
25 of that.

1 The second one is in terms of operational
2 authority. Basically, on a very broad scale, what we're
3 saying is that we want operational authority over our
4 transmission system that's within the TRANSLink region,
5 recognizing that in order to get that operational authority,
6 we have to coordinate very closely with the RTO. We like
7 the hierarchal relationship with MISO and we fully expect to
8 provide all the communication necessary for MISO so that
9 there are not seams issues. Our goal is not to manage seams
10 but eliminate them, and the protocols we worked with with
11 MISO is to do that.

12 With that in mind, we agree that MISO should
13 serve as the NERC regional authority and have absolute
14 decisionmaking over regional security issues. We also think
15 that we need to share with the MISO, issues concerning
16 transmission, particularly the physical control of the
17 assets. Our goal, after all, is to maximize throughput. We
18 want to incent our employees to look for ways to best manage
19 the system, and we want them to be able to effectuate those
20 decisions. That doesn't mean, however, that they're going
21 to do that in isolation.

22 Again, under the protocols that we worked out
23 with MISO, to the extent that anything we do affects
24 something outside of the region, MISO has the right to
25 intervene and direct contrary action. In addition,

1 information such as line ratings, anything we want to do in
2 terms of op guides gets sent to MISO so that they have
3 oversight. If there's a complaint, they manage the dispute
4 resolution process so that there isn't a seam, and this
5 Commission as well as the other stakeholders can have the
6 confidence that there is independence being operated and
7 someone is overseeing these operations.

8 In terms of implementing transmission
9 curtailments, we think that's the RTO's role. Performing
10 system impact studies and equipment ratings, we see
11 ourselves working with MISO as part of the protocols. We've
12 agreed with them that we'll develop the model jointly and to
13 make sure that the information is again seamless so that
14 they understand what's going on and we can operate within
15 the confines of their oversight.

16 Relative to short-term reliability, basically the
17 way we see it is that we will operate again within our
18 region to secure the system. If in fact a line goes out, we
19 need to be able to take the actions to secure reliability.
20 Communication of all those things will go back to MISO.
21 Again, if there's a concern about what we're doing, the
22 information is there and becomes transparent. But we need
23 to be able to make sure that we're protecting our assets.

24 The other piece I want to go down then is into
25 transmission tariff and design. Again, as Bill mentioned

1 it, I won't repeat, we have an absolutely reciprocal tariff
2 with MISO. We'll be offering the tariff within our region.
3 To the extent there's any transfer of power between our
4 region and any other, it's the MISO tariff, so it's fully
5 reciprocal.

6 Our concern as an owner is we want to be able to
7 look for the innovative changes. Let me give you an example
8 of what we're looking at. We have a lot of wind power. As
9 you've heard on different panels, there's a lot of concern
10 about how you accommodate wind energy on a system when it's
11 intermittent. Those are the types of things that are
12 peculiar regional concerns that we're going to want to
13 develop tariffs around. That's the type of thing we see us
14 doing. If MISO adopts it because they think it's a great
15 idea, that's wonderful, but we don't want to stymie the
16 innovation to deal with these local concerns.

17 The other thing I wanted to get down is to
18 talking about the operation of the market. We see that as
19 an RTO function. The one caveat is in terms of congestion
20 management. We believe that the management of congestion in
21 terms of pricing and nodes, especially if we implement an
22 LMP pricing, belongs in the RTO. Again, recognizing that
23 where we're starting from in the Midwest and where we want
24 to get to is a huge leap. So the question I think the
25 Commission should be asking at this point is, we want to

1 move there. How quickly can we move there in the Midwest
2 and what roles can the ITCs play in helping implement a
3 market.

4 One of the things that we're doing in terms of
5 TRANSLink is consolidating the control areas from five to
6 one. We started a dialogue with the Midwest ISO to talk
7 about how can we use our existing infrastructure in
8 TRANSLink to help MISO move to more of an LMP pricing. The
9 fact is that we see ourselves as providing a role there. We
10 can help basically through delegation of the MISO, look for
11 different ways of moving there faster. Again, it has to
12 always be under their control. But the issue is, absent an
13 ITC, absent these subregions into MISO, the progress is
14 going to be much slower. I think one of the commentators
15 talked about it, that if the ITCs don't exist, what will be
16 there is integrated utilities but not independent
17 transmission, so by allowing us to move along and work with
18 MISO to help develop these markets, I think we'll get to
19 much more of a regional market quicker. '

20 The other thing I wanted to talk to is about
21 planning, again in terms of a function. We're going to want
22 to plan our system, we're going to want to identify at a
23 local and regional level what kind of investment is needed,
24 what are the concerns in terms of voltage, et cetera. We
25 expect fully to coordinate that plan with MISO if we're

1 going to use a bottoms-up planning process, and the
2 introduction of an ITC won't be much different than what
3 integrated utilities are doing today.

4 The other point here is we think again we provide
5 a very important link between MISO and the states. I
6 mentioned a few weeks ago that states in the Midwest still
7 use integrated resource planning. There's still going to be
8 an issue, even if an investment is approved by MISO, will
9 the states want it in? So we're going to provide that very
10 important link back as to how what we're doing works with
11 the states, particularly since we're making the investment.

12 There's one other point I wanted to make I think,
13 and that is just in terms of seams issues. The point was
14 made this morning but it can't be made strongly enough. Our
15 goal in creating TRANSLink is to eliminate seams. Many
16 seams today are the seams that occur between control areas.
17 By looking to consolidate control areas that's one way we
18 get there. The other piece is that rather than dealing with
19 five or six different utilities, some of whom may not be a
20 member of MISO. With a combination ITC, MISO only has to
21 deal with one company. That again will help eliminate many
22 of the seams that will occur otherwise.

23 Also there was a comment made this morning, if
24 we're really good at running transmission and somehow we
25 reduce congestion on the system somehow, does that create a

1 seam? That's exactly what the hierarchical role between
2 MISO and ITCs won't allow. If in fact we're doing something
3 with the system that creates problems elsewhere, that's what
4 the MISO is looking at, and will tell us that we can't do
5 that. So I don't see that occurring. In fact, what I think
6 would occur is we'll provide the innovation for ways to
7 remove congestion. That's it for my comments. Thank you
8 for having me. I look forward to your questions.

9 MR. McLAUGHLIN: Thank you, Audrey. Jose
10 Delgado.

11 MR. DELGADO: Thank you, Mike. Thank you for
12 inviting me back. I probably didn't offend you too much the
13 last time I was here. I'm Jose Delgado, President and CEO
14 of the American Transmission Company. You've already heard
15 of our company from some of the panelists in the previous
16 panel.

17 I think what this industry needs above all is to
18 stop talking about some things and begin doing them. And I
19 would like to tell you that once you begin to do, you
20 acquire a different perspective. I would like to share that
21 perspective with you in the context of the conversation.
22 We're a transmission-only company. We became operative
23 January 1st, 2001. Twenty-five companies divested their
24 assets in a former company and now they are in fact our
25 owners and in fact ownership for some time. In fact, some

1 of them do have direction of the company.

2 Let me address that. I think it's very important
3 to realize that we have to get enough comfort in everybody;
4 coops, munis, and investor owns, and the fact is they will
5 be treated very well as customers. We serve all of the
6 upper peninsula of Michigan, most of Wisconsin, and I would
7 like to talk a little bit about independence because I think
8 it's absolutely important as an issue.

9 Independence by itself isn't enough. You can be
10 independent and incompetent. You can be independent and
11 bad. You can be independent and wicked. You can be
12 independent and a thief. So independence doesn't add really
13 any value to it except you do it all for yourself except for
14 the others, it doesn't get any benefit if you're doing bad
15 things. I think you have to be as independent as you act,
16 that's what counts. I want to tell you that even though our
17 company at this point does not bear the brand of
18 independence, and we do think that passive ownership does
19 work and we think that we demonstrated that it does. Our
20 company in fact acts independently. Let me give you an
21 anecdote.

22 Act 9 of the Wisconsin Legislature in 1999 that
23 promoted the formation of our company requires that the new
24 company provide equal service to all customers. Interesting
25 that a state law does not require that we treat in-state

1 customers any better. In fact, forbids that I treat any
2 customer partially better than others. It's in that
3 environment, encouraged by that in fact, we are acting on
4 behalf of all of our customers and it's not surprising that
5 as we became the owners and operators of the assets that it
6 became very, very clear that there's a feature of this new
7 company which basically is this company is a utility, it's a
8 regulated monopoly, regulated by FERC for terms and
9 conditions and we have to go to the states within their
10 processes in order to build our assets, but we do not
11 compete against any one of our customers and that in fact
12 customer service is terribly important to us. That's a
13 great discovery to utility people.

14 So from our perspective, I want to talk about
15 basically what are the functions we think are essential,
16 what is the benefit we think we're bringing, and this is not
17 that we will bring but we are bringing to the discussion,
18 and just highlight a couple or two of those functions.

19 First of all, let me tell you that we do not want
20 to claim or perform any function that we cannot perform very
21 well and we don't want to claim or perform any function that
22 our customers don't want us to perform. I'll give you an
23 example. We have the equipment and the telecommunications
24 and everything else to be a control area from the
25 perspective of measuring area air and regulated generation.

1 Some of our customers are asking us to do this, some of them
2 are not. From our perspective, we will do it for whoever is
3 asking us to do it, and we will not do it if they do not ask
4 us to do it, because from our perspective, it is their call.

5 Likewise, there are other functions that we do at
6 the request of our customers, and I want to stress above all
7 the necessity for a company like ours to be able to do
8 planning. I've explained that last time, and I would like
9 to touch on it very quickly and then stress a couple of the
10 concerns that have been expressed in the discussion before.
11 To us, planning is based above all on identifying the needs
12 of customers and we project them for at least ten years. We
13 began a process which is an iterative process and we began
14 with a report that we issued last June, and right now we
15 have a second report six months later.

16 The report in June was priced at about a billion;
17 this is 1.5 billion. Things didn't get any worse. We
18 simply have been able to identify that there is in fact a
19 whole variety of other needs. By predicting the needs way
20 ahead of time, we are in fact de facto -- using a Latin
21 phrase, being a Latin American, I can do that --

22 (Laughter.)

23 MR. DELGADO: The donor of last resort. Let me
24 tell you why. It takes longer to build transmission than
25 anything else in the food chain or actually in the fuel

1 chain. You can build generation, you can build
2 distribution, you can end load, you can do DSM. The fact is
3 that we think that the transmission, by having a plan that
4 includes the needs, and I will tell you that in our zone, we
5 have 8,660 circuit miles and do not serve a humongous area
6 but it's big enough and five zones that we have been able to
7 identify have unique characteristics. We go to those zones
8 and we talk to the users and we talk to the public and
9 industrialists. Then we put those needs together in a plan
10 and show them what it is, and then we go back and do public
11 meetings, and we let the opponents and the environmentalists
12 and the users come in and tell us what to do and what not to
13 do. The reason why we are the builder of last resort is
14 that it takes us so long to build. People have plenty of
15 time to remove the need. We are driven by need. The need
16 goes, we delay the construction.

17 Let me tell you something else about construction
18 of transmission projects in our area. I do not know of a
19 single purpose transmission project. You could probably
20 show me one in the area that we serve. We have a variety of
21 needs. Some of our equipment is 70 or 80 years old, working
22 very well, but at one point here it has to be identified.
23 There are high losses, congestion. We also have new
24 generation coming in and old generation going out. Remember
25 when you take old generation out and you don't replace it,

1 in fact you have to provide transmission for the process.
2 We find that we look at the needs and we assembled them at
3 the local level, and then we back off and look at the zone,
4 and we back off and look at our company and we're looking
5 for projects, and we're trying to define the priority of
6 projects and projects that have multiple needs.

7 If the needs begin to change, the projects
8 change, but there is a catch. There is a point in time when
9 if the need is still there, we have to file the project and
10 put it in front of the Commission so the Wisconsin
11 Commission can get to the point that something gets built.
12 The needs of our customers will not be met with promises or
13 with ideas. They have to be met by taking action and we are
14 the ones who ultimately have to do it, so we will
15 collaborate.

16 And I think there was a comment here about we're
17 collaborating on getting the demand side programs that we
18 can control and how we can in fact find different ways and
19 collaborate with people that are trying to get cogen and
20 other items in there. I can assure you without
21 transmission, you have no cogen. Without transmission you
22 have no green power. Green power is generated where people
23 are not, and people buy it. You have to take it to the
24 market and they're willing to pay the premium that makes
25 the project go. This is an issue in our area, okay.

1 Likewise I can guarantee you that DSM works much better when
2 you have a market that you can actually use it over a broad
3 area. So from our perspective, we found ourselves to be the
4 enablers and we also are the builder of last resort and were
5 driven by the and what cannot happen is that we ignore the
6 need of any customer. It is our commitment that we have
7 made to the customers. This is where the role of our
8 independence and action comes in. I think we have shown it.

9 When we come to the regional level, we need a
10 forum. Today we go to the adjacent utilities and work with
11 them. We have been working since 1995 to form MISO because
12 I think the time for regional operation and regional review
13 of planning has long been here. As an operator, I can tell
14 you that we need it. So we're very pleased that MISO is
15 around. We expect MISO to be the forum in which we look at
16 the whole region.

17 Let me tell you something else. A thousand mile
18 line for regional purposes in the area I serve is a myth. A
19 300-mile line is rare. Our loads are too close to each
20 other. There's too much existing infrastructure. A
21 regional project is a multitude of local projects.

22 Then let me add a last thing. The reason why we
23 make it public is we want everybody to participate but also
24 because we want the public to buy in. Nothing will get
25 built if we don't convince the public that it's necessary.

1 Forget about who has the right to site. It won't happen.
2 So it is our burden, not only to plan but to make sure the
3 plant gets built. No plant is any good if you don't build
4 it when you need it. From that perspective, we're making a
5 tremendous effort to get the public involved so that that
6 landowner can see that when we in fact are requesting that
7 they let us use their land that in fact we're going to be
8 doing it because there is a public necessity. We are
9 utility folks. We have to look to the public interest;
10 otherwise we have no reason to be. From that perspective
11 it's intrinsic to our ability to function on behalf of the
12 customers that we be able to do the work we're doing and
13 we're eager to coordinate at the level of MISO and
14 collaborate with MISO. There are a lot of problems coming
15 up and we are willing to work with them and participate in
16 that task force that the National Governors Association put
17 together, and then challenging those folks to be able to
18 coordinate across state lines is terribly important. I
19 think they have a lot to do with it, and they can in fact
20 improve the opportunities for us to have a single process
21 for across-state-border projects.

22 The other item, and I will bug off, until the
23 discussion goes this way, we have to be able to address the
24 needs of our customers also by offering and proposing
25 specific tariff details, it is essential that we be able to

1 come to you and address the issues of a specific customer.

2 Let me tell you that we're going to make demand
3 side work, if we're going to make this work, we're going to
4 have to work with specific people in specific areas and
5 taking advantage of specific advantages. It is our burden
6 to make sure that what we do with these customers does not
7 not burden the others. It's a burden to show it to you but
8 I think it is essential that we be able to do it. The needs
9 of the customer are very localized, so do not be mesmerized
10 by the necessity that you can treat everybody the same way
11 poorly. And that is not what we're trying to do. Every
12 customer is asking us to treat them well, so ultimately what
13 I'm telling you, we are independent from our owners, but
14 we're not independent from our customers. We are very
15 dependent on our customers, all of them. Our purpose is in
16 fact to provide them service the way they want it, and we
17 have to be able to come to you and discuss that with you and
18 in fact target something. But I think that our customers
19 are going to be the ones coming here with us and telling you
20 that they need it. I think that that would be a very good
21 thing, and we must have the ability to do that.

22 There's a lot of other functions here which we
23 don't care to do because we don't think we do them well. We
24 will fill this chart and will tell you in writing some of
25 these comments. We'd like you to know what they are. But

1 the reason why we are driven, in fact, in the future, there
2 will be other functions that we might find the customers
3 want us to do and we can do very well. We will propose them
4 to you.

5 We have written Appendix I. We think that we can
6 perform very well with the agreement that we have with MISO.
7 In fact, there is the flexibility in the functionality and
8 what appears to be a fear of some sort of complication when
9 you look at what we are doing. In fact, we are totally
10 compatible with MISO. There is an ability to move some
11 functions back and forth.

12 Today, to begin with, we're ahead of MISO, we're
13 doing things for MISO. In the future, we expect MISO to
14 pick up this capability and do more things for us, and we
15 think that is in fact a symbiotic relationship, which I
16 think is terribly important for the industry because we are
17 focused on our customers and MISO is in fact helping us to
18 do it, and it has to be that way.

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1 MR. McLAUGHLIN: Thank you, Jose. Paul Halas.

2 MR. HALAS: I'm Special Counsel with National
3 Grid USA and I've been working for the last year or so to
4 try to, with the Alliance companies, bring the benefit of
5 the Alliance model to its customers and other stakeholders
6 in the Midwest.

7 I have both the benefit and burden of coming
8 after Nick and his presentation this morning. The benefit
9 is that he set forth the business model and all the benefits
10 of that so eloquently. The burden is the same. But for
11 everyone else, it'll make my task here a little bit shorter.
12 So you'll all be happy about that.

13 I would just caution Audrey in one respect,
14 though, before you start trying to steal Nick away, remember
15 that he was on the big money panel this morning.

16 (Laughter.)

17 MR. HALAS: But good luck. Anyway, it is
18 helpful, I think, when you're thinking about the Alliance
19 and where it ends up, if it ends up. We certainly think
20 that it should end up and that the customers and other
21 stakeholders in its area and indeed the country will be
22 better off if the model does continue to exist. We think in
23 terms of where it would fit with respect to another RTO, the
24 context is helpful. But I will say that the baseline
25 assumption that we and the Alliance companies share is that

1 the primary source of revenue for a transmission company
2 ought to be throughput at regulated rates, and that it ought
3 to be incentivized to increase that throughput and make the
4 capacity available in an easy fashion.

5 We think that systems which give transmission
6 companies the incentive to benefit from congestion in the
7 short run and therefore to create congestion or the
8 appearance thereof will result in some additional problems
9 along the way.

10 Background, context. Alliance, if it comes to
11 the Midwest ISO, will bring to the Midwest ISO a network
12 which is bigger than the Midwest ISO in terms of load,
13 generation and transmission miles. The Alliance companies
14 have spent several years and approximately \$90 million
15 developing systems and the interface that's necessary to
16 turn functional control of their facilities over to an
17 independent entity and provide a mechanism and incentives to
18 contribute those assets over time when regulations and tax
19 laws and things like that permit, to that independent entity
20 for ownership as well as operation.

21 It's important to bear in mind that the Alliance
22 facilities, their load characteristics and their transaction
23 flow differ to some extent from those of the balance of the
24 Midwest ISO. And I think the other thing that's important
25 to bear in mind is that as of September of the year 2001,

1 Alliance was basically on track to begin operations on
2 December 15th. We were told that. We, National Grid, were
3 told that as we were negotiating with the Alliance, and we
4 conducted a significant amount of due diligence and that
5 bore out.

6 With that in mind, as this thing progressed,
7 early in October it became clear that the Commission was
8 very interested in seeing what sorts of functions ought to
9 remain with RTOs or eventually with ITCs. And it became
10 clear from that and from our dealings with our stakeholders
11 that the most important functions that the stakeholders
12 wanted to see hived off, if you will, from a for-profit
13 entity were the market operations.

14 We took that to heart. In the beginning of
15 December, we, National Grid, with the backing of the
16 Alliance, came to MISO and suggested that for the greater
17 Midwest region we jointly go out and issue an RFP for an
18 entity to both develop and help run that market.

19 So we've long recognized that market operations,
20 what are so dear to the stakeholders, ought to be outside
21 the hands of a for-profit entity.

22 And then following the Commissioner orders of
23 December 20, we have been negotiating around the clock,
24 around the calendar with MISO and other RTOs to try to find
25 the right home for the Alliance business model, including

1 both the proper division of responsibilities and the
2 allocation of costs for the functions that are performed by
3 the RTO.

4 Our objectives were clearly to satisfy the FERC
5 requirements between a for-profit transco, gridco, or
6 whatever you'd like to call it in this context, and a not-
7 for-profit ISO. Our goal was to provide the super region in
8 the context of the Midwest ISO with one-stop shopping that
9 has so long been advocated by the stakeholders.

10 To the extent possible, we wanted to avoid the
11 duplication or repetition of costs and efforts consistent
12 with the first two principles. And the next goal was to
13 achieve operations as soon as practical consistent with the
14 first three principles, if you will.

15 We had some guidance available to us in terms of
16 papers, basically in the form of the TRANSLink filing. But
17 we entered the negotiations with a couple of differences in
18 mind. One is the size of the Alliance system. The second
19 -- and we think this is very important -- is that the
20 independence of the National Grid as a managing member,
21 clearly affirmed in part and deferred in part have been
22 confirmed by FERC, and this is entrenched by the seven-year
23 term of the operating agreement that we would enter into
24 with the Alliance transmission owners. I should point out
25 that that operating agreement would have express

1 prohibitions against a managing member either favoring its
2 own assets or looking after the interests of the
3 transmission owners in any respect other than as
4 transmission owners.

5 The sole objective of the operating company would
6 be to increase the value creation in the transmission system
7 without influence from the transmission owners. And
8 clearly, you've got some fairly large transmission owners
9 that are very well capable of enforcing their contractual
10 rights and obligations there.

11 We have been, as I indicated, engaged around the
12 clock in negotiations with the Midwest ISO officer group.
13 We think that we have reached an agreement in principle with
14 that officer group that is completely consistent with what
15 Bill was mentioning earlier, and basically the first thing
16 out of the box is that all market-related operations would
17 be both developed and operated by the Midwest ISO.

18 And then issues with respect to making maximum
19 capacity available would rest initially with the gridco.
20 That's very consistent with the kind of paradigm that Nick
21 laid out earlier. It's a tiered approach to all the
22 significant functions, including the reliability, TTC and
23 ATC calculation and communication, long-term planning,
24 transmission maintenance planning and generation maintenance
25 coordination. MISO would be paramount. With respect to all

1 of the Order 2000 functions for the super region, the
2 arrangement would provide the one-stop shopping through a
3 single OASIS interface. There'd be a super regional tariff
4 just as Audrey's does, which would apply to transactions
5 involving the Alliance footprint and the MISO footprint, but
6 within the Alliance only footprint, it would be an Alliance
7 tariff.

8 Given the context and the development of the
9 Alliance before these negotiations started, we do want to
10 recognize that the evolution of some of these functions
11 would take place over time. We'd be more than doubling the
12 size of MISO day one. Obviously with SPP and TRANSLink in,
13 it's about an even match.

14 We're ready to go. We think that with the right
15 agreement, we can be up and running in October and give the
16 stakeholders of the Midwest everything they're looking for.

17 MR. McLAUGHLIN: Thank you, Paul. Paul McCoy.

18 MR. McCOY: Thank you. Good afternoon, I'm Paul
19 McCoy, Senior Vice President of Operations for Trans-Elect.
20 This afternoon I'm going to offer some brief comments on
21 reliability, transmission rates and tariff administration,
22 planning, congestion management and market monitoring as it
23 relates to the split of functions between the RTO and an
24 independent company.

25 In the area of reliability, we believe that

1 security of the bulk transmission system is best maintained
2 by a single reliability authority acting at the regional
3 level. Using older NERC parlance, the RTO would be the
4 security coordinator for the entire region under its
5 control. Given the complexity of the network, however, the
6 most workable system would necessarily be one where a
7 layered approach is employed. This would involve local
8 actions to solve local problems with oversight by the RTO
9 and RTO-directed actions when a coordinated regional
10 approach is necessary to maintain integrity of the network.

11 This layered approach can be applied to both
12 short-term operational issues as well as the longer-term
13 system planning and expansion process. By the nature of
14 their independence, independent transmission entities and
15 with the big guys was talked about this morning, should be
16 allowed more latitude in operating the local system and
17 resolving local issues. This additional latitude, of
18 course, should not be allowed where negative impacts on
19 other transmission systems would result.

20 Much of the activity that will normally occur in
21 the short-term operational timeframe will occur within
22 predetermined operational parameters approved by the RTO.
23 In this case, little active management by the RTO is
24 necessary as the individual transmission owning entities and
25 whether they're vertical utilities, public or private, or

1 independent companies, do as they go about the daily
2 business of operating the network. In other words, local
3 control prevails when the network is operating within the
4 predetermined operational boundaries.

5 In the case of system upset, however, or
6 operation near the boundaries approved by the RTO, the RTO
7 will take a more command-and-control stance.

8 In the context of longer-term network planning,
9 the RTO should produce a regional plan that is a result of a
10 bottoms-up effort by the transmission owning entities
11 optimized for both reliability and market performance by the
12 RTO. I'll have more to say about this in a few moments.

13 Finally, we support the most transparent view
14 possible regarding the status of the network, something that
15 many people have asked for, consistent with protection of
16 this critical infrastructure from a national security
17 standpoint.

18 Turning to tariffs and rates, Trans-Elect
19 believes that it's vitally important that each independent
20 transmission owning company be allowed to file its own
21 tariff for transactions that sink within the independent
22 company's footprint. This is critical if the goal of having
23 truly independent transmission companies is to be realized.

24 The revenue generated by the load within the
25 footprint of the independent company is the revenue mainstay

1 that supports the independent company's financial structure,
2 which was put in place in the first instance to acquire the
3 assets. We'd also expect that the independent company would
4 be allowed to develop new product offerings under the
5 tariff, bill for the services if it so desired, and
6 determine whether certain tariff services should be
7 discounted.

8 In line with the RTO's responsibility to
9 administer its own tariff as well as tariffs of independent
10 companies operating within the RTO, we believe that the RTO
11 should coordinate the dissemination of activities and data
12 from these tariffs through its OASIS or other public means.

13 Planning. And in this regard, I'm talking about
14 longer-term planning. We believe that the best regional
15 plan is one that is produced with initial input from the
16 transmission owners, taking into account the local issues
17 surrounding provision of transmission service in their area,
18 and then optimized by the RTO through a joint process with
19 the owners and other stakeholders. We see this process as
20 ongoing and iterative.

21 As an aside, I don't believe you start a planning
22 process, complete it in October of that year, put it in a
23 mayonnaise jar and say the next time we'll look at it is
24 next year. This process goes on all year long. Certainly
25 at one point you have to freeze it and say this is the

1 regional plan for the next five years, or perhaps on a less
2 frequent basis, a long-term plan for the next ten years.

3 The transmission owners will be working a
4 continual basis and will aggregate this data from local
5 companies in a way that will feed into the RTO planning
6 process. Jose mentioned his goal in Wisconsin of working
7 with local distribution entities, and we see it exactly the
8 same way.

9 A workable regional plan will likely take a
10 number of iterations, with feedback from the transmission
11 owners and other stakeholders before it can be held up to be
12 the best plan for the region. The final plan will take into
13 account the ratings of equipment, operating guides and load
14 forecasts, all supplied by the transmission owners and
15 approved by the RTO.

16 As with operational issues, an independent entity
17 should be allowed additional latitude to solve local
18 planning problems on its own under the oversight of the RTO
19 as long as solutions from the local process do not
20 materially impact facilities outside the boundaries of the
21 independent company's footprint.

22 Finally, in the area of congestion management and
23 market monitoring. We believe that while transmission
24 owners may have the capability to deal with certain
25 localized congestion issues on an individual basis with RTO

1 oversight, that the RTO must ultimately be the one-stop shop
2 for congestion management.

3 We see congestion management and market
4 monitoring as unavoidably intertwined, and I think this is
5 something everyone forgets. They're not necessarily
6 performed by the same entity, but they're intertwined. Much
7 of the job of market monitoring revolves around actions of
8 customers and suppliers during periods of network
9 congestion. Since the RTO will be responsible for operating
10 the congestion management in our view, whatever its form,
11 will be in the best position to collect data from and
12 observe behavior by market participants in the furtherance
13 of the market monitor's responsibility to monitor the
14 market.

15 In other words, whether it is the market monitor
16 or a separate party is, the RTO is in the best position to
17 gather data both from its congestion management process and
18 by observing behavior and forward it to the market
19 monitoring entity.

20 That concludes my remarks, and I'd be happy to
21 take questions.

22 MR. McLAUGHLIN: Thank you, Paul. We have just a
23 little bit of time because we are going to try to have three
24 panels this afternoon. But I do have one question if I
25 could of all. It's been suggested today or implied at least

1 that size matters in the determination of the number of
2 functions that can be performed by an ITC. And I would like
3 to get your view of that and anybody else who would like to
4 comment on that.

5 MR. McCOY: I don't think it's the number of
6 functions where size is an issue. I think if we pick one
7 out, for example, if we pick congestion management, it turns
8 out, for example in the U.S. asset, which the Commissioner
9 approved with some conditions last week, the purchase of
10 METC, the position of that asset in the lower peninsula of
11 Michigan suggests that while there are some loop flow
12 issues, they are not caused by actions of METC, they are
13 caused by actions of others. So for METC, for example, to
14 try to mitigate that loop flow on its system itself isn't
15 going to work in our judgment.

16 One can conceive of a very big ITC where parallel
17 and loop flows are all internalized where an RTO may find it
18 possible to delegate the authority to mitigate that to that
19 entity. But I don't think it's size. I think it's whether
20 the ITC can internalize the loop and parallel flows or
21 internalize all the congestion points. I hope that was
22 responsive.

23 COMMISSIONER MASSEY: Joe?

24 MR. WELCH: Welch.

25 COMMISSIONER MASSEY: You listed to Audrey and

1 Jose and to the testimony of the others. Where do you agree
2 with them and where do you disagree with them? Are all of
3 you ITC owners on the same page here? That's what I can't
4 figure out. You seem, Joe, to be arguing for a more limited
5 ITC function than, say, Jose is. Am I hearing that right?

6 MR. WELCH: Yes, you are hearing me right. I
7 think by and large we're on the same page and that we're all
8 coming from the premise that we believe that an independent
9 transmission company can best serve the local needs of its
10 customers.

11 My division comes from the fact that we sit in a
12 peninsula state. All of the actions of people south of us
13 drastically affect the viability of the quality of service
14 that we can give our own customers. It has significant
15 impacts on the amount of transmission that we have available
16 to use for our customers. The parallel flows that we have
17 on our system, for instance, on a daily basis, average 50
18 percent of the scheduled flows. In other words, it's
19 tremendous. And at the time of peak, we have seen some of
20 our facilities absolutely just swamped with parallel flow.

21 So when I start to look at how this division of
22 power starts to get unfolded, I get very uneasy because I
23 want to make sure that my customers have the best
24 opportunities for equal access to and through the market as
25 anyone else, and that the actions of others don't impede

1 that. And when I realize and when you all realize that,
2 you've heard people say, well, we want to maximize our
3 throughput. This is an AC network. This isn't DC. So when
4 somebody increases their throughput, that also puts flows on
5 someone else's line. To those people who are immediately
6 south of us, it usually means it winds up on our line.

7 And I've said it before that, you know, it's not
8 that we don't want to do that. We just want to make sure
9 that there's a system in place where there's a
10 rationalization of those revenues so that we're incented
11 like everyone else to facilitate those flows.

12 I believe that, you know, when you asked the
13 question earlier about the role of transmission, is it in
14 competition with generators? I kind of mused to myself about
15 this answer, but I say that the role of the transmission
16 operator is to facilitate the marketplace. And to that end,
17 it's not our role to compete with generators. It's our role
18 to make more generators competitive, to make more of them
19 have access to the market, and there lies the principle that
20 the lowest cost supplier will be serving customers, and as a
21 result of that, customers' costs will go down.

22 And when I realized that, I've come to the
23 conclusion that there aren't many of those functions like
24 congestion management that I need to do that helps me
25 facilitate lower cost to my customers. And I have problems

1 with other people doing it, because if they're doing it,
2 they're doing it to maximize something for themselves. And
3 I'm not saying that they have sinister events, they want to
4 maximize their profits, they want to maximize their benefits
5 to their customers. We have customers, too, and their
6 actions affect us.

7 So I come down very sparingly on the division of
8 power. And at the end of the day, I think that the system
9 that we can envision going forward is I'd rather start off
10 conservative and move forward and get more lenient as we get
11 experience with it than going in the other direction.
12 Because it's hard to get this genie in the box.

13 We've had the loop flow problem for years now.

14 MR. DELGADO: I think I'm going to agree with a
15 lot of what Joe said. I think location matters a heck of a
16 lot more than size, and I think it matters more than just
17 some sort of a generic. I'm offering you the criterion,
18 because we are doing it, that what we're doing on behalf of
19 the customers we ought to continue doing it. It's some form
20 of I think it's the principle of subsidiarity. If an
21 individual can do it, don't let the government do it. If a
22 small unit of government can do it, don't let the big unit
23 do it. I don't like the government, okay? So from that
24 perspective, my impression is that we in fact can take care
25 of the customer. In fact, we are better at getting this

1 thing done because we are right there trying to also
2 convince the landowner of the need of it, and we're totally
3 coordinated from the top.

4 So the functions that we can do I think are
5 likely to vary because our customers are also asking us to
6 do different things, okay. And I think there's room for
7 some of that. Some locations require different functions,
8 okay. And it's very difficult for me, for me, for example,
9 to relate to the Western USA and Canada, because their
10 functions are so different from ours. I never worked in
11 there.

12 So I think it's very important to realize that
13 the test I'm proposing to you is the test that says we're
14 doing it based on customer need, and in fact we can do it
15 better at a local level than it can be done at a regional
16 level. And at that level, we can do certain things better
17 at the level. So I don't think in the extremes there's any
18 argument. I think there's some areas in the center of these
19 functions that in fact they can be shared in different ways.

20 And my criterion for you is if the customers are
21 asking us to do more, we will come to you and show you that
22 we can do it well. We will show it to the Midwest ISO, and
23 we have an agreement with them that these things can move
24 from one to the other.

25 If in fact we cannot do them, we shouldn't do

1 them.

2 MR. McLAUGHLIN: Audrey and then Paul.

3 MS. ZIBELMAN: I would just add briefly to Jose's
4 point. I do think that there are different things that
5 different ITCs can do. Basically both the terms of location
6 and size. To me, it's not only an issue of what the
7 customers want to do but what's most efficient.

8 For example, I think we talked about managing
9 loop flow if in fact there's loop flows within your
10 footprint. And if they're only contained within your
11 footprint, it makes sense for an ITC to help manage those
12 loop flows rather than the RTO. If in fact they're super
13 regional, then it doesn't make any sense and you don't need
14 that functionality. So I think that you need to look at it.
15 Appendix I was designed with that in mind, is that it's
16 broad and there may be some things that one ITC feels that
17 it is efficient for it to do and it helps to improve
18 operations and another doesn't. That's the type of
19 flexibility we're looking for. But I think in large part we
20 agree on sort of the key functions we need to do.

21 MR. HALAS: My additions will be very brief. In
22 terms of whether size matters, I don't think that lack of
23 size necessarily should preclude an ITC from certain
24 functionality, but when you have a really big ITC, there is
25 certain functionality that almost has to devolve to the ITC.

1 I think the tiered hierarchy that Bill has been working with
2 for years and we're now trying to work with works well in
3 that regard.

4 And I think that also works well in regard to the
5 issue that Joe mentioned. To the extent that there are
6 activities that are undertaken within the Alliance area with
7 us as managing member that might impact Joe's area, the
8 Midwest ISO would certainly get involved in that, just as it
9 would if there was something that AEP or First Energy did
10 that was going to impact the ITC of the Detroit Edison area.
11 It doesn't change that any regard. It's still a tiered
12 approach.

13 CHAIRMAN WOOD: Should an ITC have more than one
14 control area underneath it? Let me talk to the two big
15 ones. Because I know you guys are down to one, and you are,
16 too, right? Are you all planning on coming down on one,
17 Audrey?

18 MS. ZIBELMAN: Our proposal is that we'll go down
19 to one in each region. In other words, we've got systems in
20 West as well as SPP and MAPP. But within each region, there
21 would be one control area.

22 CHAIRMAN WOOD: And then Paul?

23 MR. HALAS: It would strike the Alliance that
24 that would be a long-term objective. I can't give you a
25 timeframe on that. Clearly it's an immense area, and right

1 now it will be the three and we'd try to work down over
2 time.

3 CHAIRMAN WOOD: So the \$90 million that you
4 represent that you've spent to transfer functional control
5 to an independent entity is relating to what type of
6 systems?

7 MR. HALAS: It would be the OASIS system, the ATC
8 engine, all those sorts of things that would need to roll up
9 and be published on the OASIS for the Alliance area, all the
10 reliability, every other engine you could think of.

11 CHAIRMAN WOOD: I know your 60-day timeline ran
12 today. Have you all filed something?

13 MR. HALAS: We have filed something today.

14 CHAIRMAN WOOD: How would you characterize that
15 filing? Because I haven't looked at it.

16 MR. HALAS: I would characterize it as interim,
17 unfortunately.

18 (Laughter.)

19 MR. HALAS: Unfortunately. And I don't mean to
20 be glib, but it has to be. We started off negotiating what
21 we had thought were going to be two major issues, one is the
22 division of responsibility, and the second would be the
23 allocation of cost. The division of responsibility, as I
24 indicated, I thought we had reached an agreement with the
25 Officer Group. We learned late last week that the Midwest

1 ISO stakeholders were, at least a small portion of them,
2 maybe all of them, I don't know, were against that
3 agreement, and that therefore the Officer Group couldn't go
4 with us in support of that filing.

5 Issues remain with respect to the allocation of
6 costs. We think that over time those things are within
7 reach and could be worked out. The other issue that has re-
8 arisen, if you will, is the revenue neutrality agreement
9 that had been reached around this time last year among all
10 of the TOs in that greater region, and that apparently has
11 been reopened. It may be over by now, but some of the
12 Alliance TOs and some of the Midwest ISO TOs are meeting in
13 Carmel today to try to has that through. That may take some
14 time.

15 CHAIRMAN WOOD: Thank you.

16 MR. CANNON: Just one follow up, Paul. You had
17 mentioned pre-approved operational parameters from the ITO
18 and then having the ITC have the latitude to operate within
19 those parameters. It would help me to have a couple of sort
20 of real world examples of what you have in mind, from you or
21 from others as well.

22 MR. MCCOY: I think that was mine. One would be
23 -- let's just come up with one. You're in the Midwest and
24 it's a normal temperature April weekend, no storms. The
25 system is not congested anywhere. You're well within

1 equipment ratings wherever you look. There's little need,
2 for example, should the local entity desire to perform some
3 last-minute maintenance to run a very thorough study on the
4 impact of taking a transformer out of service.

5 Certainly the local company, the independent
6 company would have to notify the RTO, but it would be a
7 perfunctory notice versus doing the same thing on an
8 emergency basis in mid-July with the temperature at 95 where
9 there'd have to be some very hard questions asked on whether
10 or not the outage could be postponed, is there equipment
11 damage imminent, a catastrophic failure might occur,
12 cascading outage.

13 And you see that same sort of thing if you look
14 at the FAA's air traffic control system. If you fly coast
15 to coast on the red eye, air traffic control is amazingly
16 quiet at two in the morning versus five o'clock around La
17 Guardia, say, where there's definite command and control and
18 everybody has to be on their toes.

19 MR. CANNON: Is there something that might relate
20 more to some of the throughput arguments that we've heard
21 this morning and some this afternoon where -- again, and I'm
22 real interested in particular in hearing from the Midwest
23 ISO in terms of what kinds parameters it would lay out and
24 then how you all could operate within those parameters and
25 still make a profit.

1 MR. PHILLIPS: I think an additional example is
2 the fact that we expect to have numerous operating
3 procedures that will have already been worked out between
4 the Midwest ISO and member systems, whether they be ITCs or
5 control areas or other entities, that we would allow local
6 control centers to implement those operating procedures
7 under the circumstances that they were designed for. And
8 they will in fact sometimes be oriented toward increasing or
9 continuing the desired throughput through operating
10 procedures to handle certain contingencies.

11 MR. MCCOY: If I might just add one thing.
12 Existing vertical utilities do this today, for example, when
13 they converse, when the control centers converse with the
14 power plants on the need to do testing or other maintenance
15 while the unit is on system. If it's critical that it needs
16 to be done, and this especially would apply to say nuclear
17 plants where you have NRC requirements to do certain things,
18 that's one thing. But if it is a test or a surveillance or
19 an inspection that can be put off til the peak period is
20 over, that generally is something the control center would
21 ask the plant to do.

22 The other side of that coin is, when the system
23 is not constrained, it's off peak, there's plenty of
24 capacity available, then there's little restriction by the
25 control authority, if you will, the control center, to what

1 the power plants might do. Yes, there's a risk you might
2 lose a unit, but the impact on the system is low.

3 MR. DELGADO: Just briefly. In today's
4 environment, we have no means of profiting from that.
5 However, we're also motivated by the fact that we have to do
6 the right thing for the customer, and it does pay, okay.
7 And in fact, keeping the customer happy is terribly
8 important to us, because then they come here to FERC and
9 settle with us.

10 So we are motivated also by keeping our customers
11 happy and keeping the lights on. I can tell you that an
12 incident of rotating blackouts for any of us transmission
13 operators will be a disaster, regardless of the cost, and we
14 take it as such. And it has very, very bad consequences.

15 So from our perspective, we have the positive and
16 the negative, but we are motivated to keep people happy
17 because then our business operates a heck of a lot better.

18 COMMISSIONER BREATHITT: Jose, you and I had a
19 conversation I think about a year ago on the need for either
20 RTOs or entities within RTOs to be able to provide certain
21 customer care functions, and that's what we've been talking
22 about. And that's what you said in your prepared remarks.

23 But if you were to distill those, what would be
24 your top two or three or four wish lists of items that ATC
25 feels it really needs to have to provide that customer care?

1 MR. DELGADO: I think reliability, reliability is
2 above all, something that is on top of the list. We deal
3 with loop flows all the time. Our tools that we have to
4 dealing with loop flows are redispatch and TLRs, and we can
5 do some switching but very minimal.

6 We do need help because we are part of a very
7 large system, that we in fact need a large operating view.
8 We expect MISO to have that. Before that we had MAIN doing
9 it, and MAIN was much smaller than MISO.

10 COMMISSIONER BREATHITT: If you expect MISO to do
11 that, then how could you do it also?

12 MR. DELGADO: There's such a thing as doing -- we
13 do direct, hands-on switching of the system. MISO looks at
14 the whole area. It's part of what we term as hierarchical
15 control, where MISO looks at the whole area and we look at
16 the details. There's a lot of localized problems that my
17 operators deal with, our operators deal with, that MISO does
18 not worry about.

19 COMMISSIONER BREATHITT: So how would the
20 Commission say MISO, you have short-term reliability, which
21 we said in Order 2000, has responsibility for short-term
22 reliability, but then how would we give you a subpart of
23 that?

24 MR. DELGADO: Well, reliability is everybody's
25 responsibility. The users also have a role in reliability.

1 That's why NERC is arguing about the importance of having
2 obligatory rules. Because a user that is a rogue can create
3 a significant amount of trouble for the operator or anybody
4 else.

5 So the overall regional reliability before MISO
6 was in service we had actually MAIN. We put MAIN together
7 for that purpose. We chose not to be any of us because none
8 of us had that kind of a scope. Under that, we work and
9 coordinate, under the rules that NERC has. And we live
10 within those rules and we communicate with MAIN whenever we
11 need help at the regional level. Today we do that with
12 MISO. And in fact, the larger the footprint of the entity
13 looking overhead, the less detail it can go into. And in
14 fact it's counting on us who in fact are involved with the
15 details to coordinate within the rules. But they provide us
16 that service that they can see a much bigger view and they
17 can in fact take of the problem in the large size. That's
18 just one issue in which I think --

19 COMMISSIONER BREATHITT: So you would propose to
20 just work that out with the MISO and not have a specific
21 carved out role?

22 MR. DELGADO: Absolutely. And I think that MISO
23 sees this exactly the same way. This is a matter of
24 practicality, okay? And I think it was Nick who said a
25 system the size of MISO cannot be analyzed by a single

1 computer in any reliable fashion. It doesn't make sense.
2 It's not good. It's technically unnecessary, I mean, I
3 would say impossible at this time. And impractical,
4 terribly impractical. It's an organized system by which we
5 collaborate and coordinate with each other and begins from
6 the bottom and goes to the top. And MISO looks at a layer
7 which is very high, and we look at some very deep details.
8 And we take action immediately within the rules, okay. And
9 we coordinate with MISO.

10 COMMISSIONER BREATHITT: What else besides that?

11 MR. DELGADO: Well, I think we need a regional
12 planning forum. We tried to do it one time. There was an
13 effort to put together a regional planning group, and of
14 course that didn't quite work out and it had its own
15 problems. We think we need a regional planning forum where
16 these things can be vetted in a regional fashion. When you
17 get this multitude of small projects can in fact be looked
18 at. Today we talked to Commonwealth Edison. We talked to
19 the folks in Minnesota, and we determined where the cross-
20 border projects that in fact we are to coordinate. We would
21 profit from having a much bigger view, and the view of MISO
22 is a bigger view. And we would appreciate having that. And
23 it is a forum which we can bring our projects and our needs
24 in. We can look at the others and we can adjust to it, just
25 to give you two that in fact are very important.

1 The market is another. The monitoring of
2 performance by people. I have no intention of being the
3 cop. I'm sorry. It's not my duty. It's not my function.
4 It's not my business. I would like to have somebody who has
5 a different view of it. Because frankly, all of us have to
6 be monitored, okay. Just for one thing, because we have to
7 follow the rules. For another, it's because the people
8 playing in the market --

9 COMMISSIONER BREATHITT: You're not asking for
10 ATC to have that?

11 MR. DELGADO: I'm saying that when it comes to
12 monitoring has to be at the regional level. If ATC is in
13 fact about to or did contracted out to a third party, it's
14 quite all right with me as long as they're capable and good.
15 But that's a global issue which we don't care to do. And
16 we're very, very pleased to have it at a regional level.

17 COMMISSIONER BREATHITT: So there's not any one
18 function that I'm hearing you say that you have to have?
19 You just need to be able to coordinate certain services?

20 MR. DELGADO: I told you two and there are
21 others. We are the hands on operators. It makes no sense
22 to operate everything out of a single control room. I have
23 two control rooms, because one can fail any moment and I
24 have to back it up. It makes no sense to have one.

25 There is a need. I told you about planning. I

1 have a need to respond to customer needs directly by
2 planning. I have to be able to come to you with specific
3 service needs that my customers may have which may not be
4 global, okay. And those are things which unless I can then
5 I cannot provide the customers service that I'm being asked
6 to provide.

7 COMMISSIONER BROWNELL: Can I just jump in here?
8 To build on Linda's questioning. So what you're saying, and
9 I think in one variation or another, everyone said it, is
10 that in terms of planning and some other very specific local
11 issues, you need well defined authority to deal with that,
12 with the understanding, however, that ultimately it's the
13 RTO that makes the rules and that in, for example, planning,
14 it's got to fit into that larger regional plan? That
15 ultimately, they're the guys that say good idea, not a good
16 idea?

17 MR. DELGADO: Well, in general, the answer is yes
18 to that question. In practice the fact is that a lot of
19 things we do for the customers that MISO will not even
20 comment on because they're very local. And they shouldn't
21 even waste their time commenting on it, okay.

22 COMMISSIONER BROWNELL: But they have the option
23 if they choose to?

24 MR. DELGADO: If in fact we do have a regional
25 impact, they should be able to comment on it. There's no

1 doubt about it, okay. But what it means is that we are in
2 fact responding to customers on an ongoing basis, and I
3 think Paul said it, this is not something that you put in a
4 what do you call it? You've got to make it continuously.
5 Because in fact the conditions change continuously. Because
6 in fact the conditions change continuously. And we are in
7 fact in direct contact with those conditions, conditions of
8 the equipment, conditions of the customer.

9 So from that perspective, we continually are the
10 ones who are in fact adjusting to those items and we're
11 feeding that information to the regional planning. This is
12 why we called it a bottoms up, top down.

13 Now if in fact we're doing something that has a
14 regional impact, I want to hear about it. Today I have to
15 go visit Minneapolis and visit Chicago to determine what is
16 going on, and we do it. Now tomorrow I would like to have
17 the MISO provide a kind of a continuous forum to do it. In
18 many ways it's a great comfort in doing that.

19 Now do we always put in a situation who has the
20 right to tell you what to do? Well, let me tell you. You
21 can tell me what to do, but until somebody allows me to
22 build it, nothing is going to happen. I have to work very
23 hard to make it happen. So I will collaborate with
24 everybody. And we gave MISO the right to order us to build,
25 okay. And the reason we did that is we think that it cuts

1 in many different ways, and they have to have someplace
2 there a backdrop. And we think that's very adequate.
3 Telling me to build, unless it has a tremendous following
4 support, is not going to get it done. I have to work to
5 make it happen. That's why I have to be right at the
6 grassroots making it happen, because I have to sell the MISO
7 plan locally, and that's my role. And I hope you see that
8 there's a different tone to what I'm telling you.

9 MR. McLAUGHLIN: Okay. I'm going to give
10 Commissioner Massey the last question if he wants it, and
11 then we can call the next panel.

12 COMMISSIONER MASSEY: Bill Phillips, let me ask
13 you a question. If this agency were to define an RTO
14 function similar to what Larry Ruff suggested this morning
15 as a function where you operate the integrated dispatch
16 along with the market operation function, built around
17 locational marginal pricing and financial transmission
18 rights, does the Appendix I division of authority work
19 within MISO under that market design, or would it have to be
20 amended?

21 MR. PHILLIPS: I think the Appendix I division of
22 responsibility can work. I won't tell you that all the
23 issues have been resolved. For example, I can't tell you
24 today that we have a complete answer as to how congestion
25 management will work with differing tariffs and their

1 effects on the same facilities. But we think that those
2 problems can be figured out, or if they can't, then we'll be
3 back at the table with you.

4 I think it's the goal of the single market design
5 and our long-term congestion management programs to get to
6 where it was implied this morning. We're not there yet.
7 We're still in the era of TLRs and other approaches to
8 congestion management that are not the most desirable. And
9 as long as we're there, we have these divisions of
10 responsibility issues with other entities.

11 With regard to the size issue, any RTO that's
12 large enough for you to view acceptable to grant RTO status,
13 I think it's going to have the issue of how does it carry
14 out all these functions all the way down to the lowest local
15 level? And it's not going to be able to do that without a
16 hierarchial approach to these issues, both in operations and
17 planning.

18 I think the issue, I think Commissioner Brownell
19 hit on it very well, is you have to give ultimate authority
20 to the RTO. I think you have to allow the RTO some
21 discretion in how it delegates these issues. I think you
22 have to make some policy decisions on whether there are
23 things that can be delegated to an independent transmission
24 company that can't be delegated to others because you do
25 view it to be independent.

1 But we have these hierarchial issues even with
2 non-independent entities -- control areas, even transmission
3 providers in terms of providing us data, for example, that
4 we need for our models, providing us input on the limits of
5 their facilities and so forth. There's not going to be a
6 one-size-fits-all answer I'm afraid.

7 MR. McLAUGHLIN: We thank you, and we will call
8 the next panel at 2:20.

9 (Recess.)

10 MR. COLEMAN: (Presiding) If we can take our
11 seats we can get started with the next panel. For our next
12 panel this afternoon, we've corralled a few folks from the
13 West to come in and talk about the organizational proposals
14 out there. We were supposed to have had representative from
15 RTO West but unfortunately there was a family emergency and
16 they could not make it, but I believe that we are amply
17 represented by the remainder of the group here. So without
18 further ado, I'll turn it over to you, Charlie, for a couple
19 of opening remarks.

20 MR. REINHOLD: Thank you, Mike. My name is
21 Charles Reinhold. I am the project manager for the
22 WestConnect funding participants. I've been retained by
23 those entities to herd this group of cats on down through
24 this particular stage of our RTO development in the
25 Southwestern United States.

1 I was also very pleased to hear earlier that
2 comments are due into the Commission on the market design by
3 March 12th, because we'd like to see the Commission turn
4 around the input that they're getting on this market design.
5 And as Jose put it on the earlier panel, we'd like to be
6 action oriented and we'd like to get moving and have
7 something come back out on our declaratory order that we had
8 filed.

9 By way of background, WestConnect did file for a
10 declaratory order that it meets RTO Order 2000 status in
11 mid-October of last year. WestConnect further responded to
12 a fair number of protests that were filed in that proceeding
13 and did so in late December.

14 WestConnect is largely built on the market design
15 that was developed during the Desert Star stakeholder
16 process, and that was a collaborative process that had been
17 ongoing for almost five years now. The process reached many
18 areas of compromise and collaboration. There were some very
19 finely met compromises within that entire market design that
20 were filed. And I think the hallmark of the filing that we
21 submitted is that the filing provides a great deal of
22 flexibility that we believe is required to attract the wide
23 variety of transmission owners that we have present within
24 the Desert Southwest.

25 We have a number of transmission owners,

1 investor-owned utilities. We certainly have public power
2 participants in the form of municipals and special
3 districts. We have cooperatives. We have the Federal Power
4 Marketing Administration, and we've had to work with all of
5 those entities in bringing together the entire WestConnect
6 market design.

7 The late change from Desert Star as a nonprofit
8 entity to WestConnect as a for-profit entity came about
9 within about the middle part of last year. The reasons for
10 moving towards a for-profit business structure were
11 primarily to incent an organizational efficiency within the
12 RTO model. Many of the transmission owners wanted to focus
13 on cost containment. And as Nick Winsor remarked earlier
14 this morning, they hit home with the discussions we had.
15 With the focus on shareholder value and cost containment
16 within the WestConnect business structure, it will result in
17 lower costs to all consumers eventually.

18 Another important reason for moving to a for-
19 profit structure was the ability to access capital for
20 system improvements. We have certainly seen the effects of
21 congestion in markets in the Western United States over the
22 past year or so. Any measure that increases access to
23 capital for new construction of facilities we think is going
24 to be welcome and need to continue to keep pace with the
25 load growth throughout the entire Western U.S.

1 Another potential benefit in moving to a for-
2 profit structure is a potential in the future for incentive
3 returns on new investments that are actually owned by the
4 RTO if it chooses to own facilities.

5 We would note that Order 2000 originally
6 envisioned that a profit-oriented entity could qualify as an
7 RTO. We believe that the structure we've put together
8 WestConnect will meet that criteria and should satisfy the
9 Commission that we meet probably what is the most important
10 part of any RTO, and that is independence. The key really
11 is not so much whether the RTO business structure is profit
12 or nonprofit. It is whether the RTO can act independently
13 of market participants in administering and operating the
14 grid within its footprint. And simply that independence can
15 be provided under either business model. The participants
16 in WestConnect have chosen a for-profit to move forward
17 with.

18 The WestConnect governing body will initially be
19 selected in a process that includes all of the stakeholders
20 in the process for selection of a board of directors. That
21 includes all of the TOs that I had mentioned before, all
22 other market participants as well will participate in the
23 initial selection.

24 And interestingly enough, WestConnect will not
25 require transmission owners to immediately divest assets

1 over to WestConnect. And until transmission owners do make
2 a divestiture of their assets, WestConnect will separate
3 their economic rights from their voting rights within the
4 business model. So while they will be entitled to economic
5 incentives and shareholder incentives from the RTO itself,
6 they would not be entitled to vote on replacement of
7 directors and would have no direct input on the governance
8 of the organization.

9 I'd like to stress again what I mentioned a
10 little earlier and come back to the issue of the flexibility
11 that's been designed into the WestConnect. We think that
12 that is probably the key construct that has been woven
13 throughout the business model as well as the market design.
14 One example is, as I've alluded to with respect to
15 transmission facilities, WestConnect will require that
16 functional authority over facilities will be turned over to
17 it, but it does not require that transmission owners divest
18 their assets, divest the ownership of those assets to
19 WestConnect.

20 And as a result, there's a variety of methods by
21 which transmission owners can contribute either assets or
22 capital in the form of debt funding to WestConnect for it to
23 carry on its activities.

24 A second example that I'd like to highlight is
25 planning. And I think Jose on a previous panel also gave a

1 pretty good overview of a similar planning process that's
2 both top down and bottom up. We believe that the planning
3 process will allow individual transmission owners to plan
4 the system additions that are needed for their systems to
5 serve customers. Those plans then are rolled up through the
6 regional planning process. There is an open and transparent
7 process by which all market participants, including state
8 and local regulators, to participate in those processes.
9 And at the very end, WestConnect will be able to decide on
10 which facilities are in fact needed and desired to be
11 constructed throughout the WestConnect area.

12 Once those facilities are identified as a
13 necessary improvement, there are many options for who might
14 construct or own those facilities. The transmission owners
15 will have an opportunity if they see fit and a close tie to
16 their existing facilities to construct and own facilities.
17 Third parties could construct and own, and WestConnect
18 itself can elect to own and construct facilities and
19 integrate them into the WestConnect grid.

20 We believe this process will also take into
21 account some of transmission owners' obligations under local
22 authority for load service within their historical load
23 service areas. And indeed, the identification of
24 transmission facilities at the end of this planning process
25 will be of those needed to support competitive energy

1 markets we believe at the lowest reasonable costs, which is
2 consistent with a lot of local mandates that our
3 transmission owners will be facing.

4 Another way that we believe flexibility is built
5 into our process really fits right into the matrix that
6 we've been talking about as the focal point of today's
7 conference. We believe that the board of WestConnect, once
8 it's seated, will be looking for ways to minimize the cost
9 of operation and in so doing will look for ways to outsource
10 functions that are required to be performed by the RTO. We
11 believe that the RTO is going to be responsible for all of
12 the functions. But in retaining that responsibility, the
13 board can find ways to have other entities perform some of
14 those functions if it makes economic sense to do so. And
15 that may well include some transmission owners. It may well
16 include independent transmission companies, a wide variety
17 of types of entities.

18 We have in fact built into our tariff design the
19 ability for transmission owners to be self-tracking systems
20 is our terminology for it. In essence, it's very similar to
21 the balancing authority that we heard about this morning in
22 the NERC presentation. Those entities if they have
23 sufficient metering and sophistication of operations to
24 actually meet the balances within their control area, their
25 portion of the control area, they could do so without any

1 impact we believe on overall RTO operations.

2 WestConnect would be the control area operator
3 for the entire WestConnect footprint, but at least initially
4 we will continue to use existing operation centers as a cost
5 saving measure so the physical operation will be delegated
6 to transmission owners under the control of WestConnect as
7 the RTO.

8 Last of all, and I'd like to reemphasize that we
9 believe the flexibility in our stakeholder processes and
10 particular in the planning process will accommodate
11 satisfying the needs of the local regulatory authorities
12 that many of our transmission owners need to answer to in
13 addition to this Commission. Some of those are state
14 regulatory agencies and in many cases it is local regulation
15 for the municipal and co-op systems.

16 We do recognize there needs to be some safeguards
17 in this entire process. We believe the planning process
18 with the open configuration, the participation by all of the
19 entities having a desire to participate in planning, as well
20 as posting draft plans and final plans on the WestConnect
21 Web site for comment by any parties, act as a safeguard to
22 any indication that WestConnect itself may try to slant the
23 planning process for transmission projects that may meet its
24 own needs and not the needs of the entire customer base.

25 Another area where we believe safeguards are

1 needed is market monitoring. The market monitor needs to
2 monitor the RTO as well as the markets operating within the
3 RTO. In the West we've been discussing in a collaborative
4 forum with RTO West and the California ISO ways of providing
5 market monitoring over the entire Western Interconnection
6 and are exploring methods where the funding and the
7 oversight responsibilities can cover the entire Western
8 market, including some 14 states, a couple of Canadian
9 provinces, and portions of Mexico that operate within the
10 entire Western Interconnection.

11 With regard to the specific questions in the
12 notice for this conference and in particular with respect to
13 the Western Interconnection, our focus is on that, in
14 general the operation of the transmission grid and the
15 related administrative functions seem to be more efficiently
16 performed within the Western Interconnection at a regional
17 level. We believe that will be the RTOs. And as we
18 continue to explore flexibility with additional interested
19 parties within WestConnect, it may include ITCs.

20 We have had preliminary discussions with both the
21 TRANSLink participants as well as TransConnect folks. And
22 we will continue to explore whether or not there is room
23 within our structure and if we can provide the adequate
24 sharing of services which will accommodate their needs as
25 well as WestConnect's needs, to provide services to the

1 entire footprint at the lowest cost that we can find.

2 As I alluded to with market oversight and market
3 accountability functions, we believe that they can be more
4 efficiently performed with a broader view, and in many cases
5 we think that we may be able to have that view expand to the
6 entire interconnection. If it does not do so, WestConnect
7 will certainly implement its own market monitoring structure
8 to cover the activities under its aegis as well.

9 With that, I think I will stop here. I look
10 forward to your questions later on.

11 MR. COLEMAN: Thanks, Charlie. David Rubin.

12 MR. RUBIN: Thanks, Mike. On behalf of the
13 California Independent System Operator Corporation, we very
14 much appreciate the opportunity to participate in today's
15 technical conference regarding the issues of what regional
16 transmission organization services as defined under the
17 Commission's Order 2000 are best provided by an RTO or an
18 independent transmission company.

19 Currently, the California ISO operates the
20 systems of the three California investor-owned utility
21 companies in the city of Vernon. This highlights the
22 importance not only of the RTO/ITC discussion but also the
23 need to allow participation within an RTO of entities that
24 retain ownership of both transmission and generation assets.
25 This is of particular importance in the case of the

1 municipal systems that in the case of California make up 25
2 percent of the system that have expressed strong desires to
3 remain vertically integrated.

4 The California ISO is engaged in a cooperative
5 process with the participating transmission owners regarding
6 such issues as transmission planning and new generator
7 interconnections. In addition, as Charles indicated,
8 California, the ISO has been working with RTO West and
9 WestConnect to address seams issues. Thus the focus on the
10 RTO sort of versus ITC responsibility may be too narrow.
11 And certainly with regard to the West, the Commission should
12 permit the RTOs to work out arrangements to enhance regional
13 coordination.

14 With respect to the issues before the Commission
15 today, the California ISO offers the following points for
16 its consideration:

17 First the Commission should focus on developing
18 the elements of its standardized wholesale market design
19 before deciding on the merits of RTOs and ITCs performing
20 certain of the functions and services. The Commission has
21 already embarked on an ambitious process to define a
22 standardized market design for RTOs, and the California ISO
23 supports that initiative and believes that it's important at
24 this juncture to design the RTO markets correctly and then
25 determine what types of organizations are best suited to

1 facilitate such markets or provide the secondary services.

2 And second, the Commission should encourage and
3 facilitate the development of innovative corporate
4 structures and should not take any action now that may
5 discourage the development of such organizations. As the
6 Commission is aware, the West is currently proposing the
7 establishment of both not-for-profit RTOs and for-profit
8 RTOs or ITCs. The California ISO stands committed to
9 working with the regional partners to ensure the development
10 of a seamless West-wide energy market. Moreover, the
11 California ISO believes it's premature for the Commission to
12 determine the type of organization that's best suited to
13 provide the identified, reliability-based and market-based
14 services and functions.

15 In Order 2000, the Commission stated that RTOs
16 should adopt an open architecture approach and should be
17 flexible and adaptable to changes in the marketplace. And
18 we clearly agree. We are committed to becoming a resilient
19 and flexible organization, and as part of that commitment,
20 the California ISO has begun discussions with RTO West and
21 WestConnect to identify and define services and functions
22 that possibly can be shared amongst the three proposed RTOs.
23 That is, are there services and functions that can be
24 jointly provided and thus providing opportunities for cost
25 sharing and facilitating the development of common or

1 standardized products?

2 In addition to the market monitoring mentioned
3 earlier, other things may be OASIS, communication networks
4 and infrastructure, possibly sharing of back-up control
5 center facilities, and billing and settlement functions.
6 And in the future, it's certainly possible that there would
7 be shared service organizations that could develop that are
8 corporately separate even from the RTOs and that not-for-
9 profit entities such as the California ISO might desire to
10 procure selected services from such organizations. And the
11 California ISO believes that the Commission should not take
12 actions now that might discourage the development of such
13 organizations or an appropriate blending of not-for-profit
14 and for-profits.

15 In addition, I guess, for the market monitoring,
16 I certainly wanted to identify also that the three entities
17 in the West have explored the possibility of reciprocity
18 agreements that would eliminate pancaking between the
19 regions. And those are sort of ongoing discussions as well.

20 The California ISO does believe that regions
21 should have consistent transmission products, scheduling
22 timelines, interconnection rules and reliability criteria.
23 There also should be consistency with regard to congestion
24 management and information systems.

25 With regard to the Commission's question of is it

1 more appropriate for certain functions to be administered
2 over a large region, we believe that functions that are more
3 appropriately administered over larger regions can include
4 transmission planning, market monitoring, seams disputes
5 resolution, transmission and generation outage coordination.
6 On the other hand, certain functions such as imbalance
7 energy and the ancillary service procurement and control
8 area operation might be performed on a subregional basis.

9 In conclusion, the California ISO supports the
10 Commission's efforts to guide and provide clarity on the RTO
11 development process, and we again urge the Commission to
12 focus its development on a flexible standardized market
13 design as a necessary first step. And we also recommend
14 that the Commission remain flexible not only on the RTO/ITC
15 issues, but also on issues associated with the participation
16 of non-independent entities within an RTO and on seams
17 agreements between RTOs. Thank you again, and I'll be happy
18 to answer any questions.

19 MR. COLEMAN: Thanks, David. Now Carolyn Cowen
20 representing TransConnect.

21 MS. COWEN: Thank you. I'm Carolyn Cowen. I
22 work for Sierra Pacific Power Company and Nevada Power
23 Company. I'm here today representing TransConnect. We
24 appreciate the opportunity and the invitation to speak here
25 today.

1 TransConnect is a for-profit ITC that will
2 operate in cooperation with the RTOs in the region.
3 TransConnect recently modified its governance documents to
4 allow its membership to transfer operation but not
5 necessarily ownership of the assets to TransConnect. What
6 this does is allow companies that like the for-profit model
7 and would like to have a for-profit entity like TransConnect
8 perform the innovative planning and expansion function,
9 develop its rates and attract capital to participate in
10 TransConnect even though for regulatory or other reasons
11 they don't plan on divesting their transmission assets
12 immediately.

13 This flexibility increases the likelihood that
14 TransConnect may have members in more than one RTO and
15 TransConnect would be committed to being compatible and
16 cooperate with the RTOs in the region.

17 Sharing the planning and rate functions are the
18 minimum functions that a for-profit ITC would require. The
19 rate function permits the development of incentive and
20 innovative rates that appropriately incent cost effective
21 transmission development and allow us to attract new capital
22 for that transmission development.

23 The planning function permits the ITC to plan,
24 propose and implement new and innovative transmission
25 products and facilities.

1 Other than retaining its ultimate authority and
2 responsibility for assuring the functions are met, most of
3 the RTO functions could be outsourced or shared with
4 independent entities. The most important issue we think is
5 that these functions get performed in the most cost
6 effective and efficient manner by an independent entity.

7 There are some functions that should be
8 administered over as large a region as possible, and
9 conversely, others that should be administered at a
10 subregional level. Planning, for example, should take place
11 in layers. There should be regional planning coordinated
12 with planning at the RTO level, planning by ITCs and
13 planning by non-independent utilities with well defined
14 authority and responsibility established for each level.

15 In some cases, planning might have to be done at
16 the subregional level to accommodate state resource planning
17 requirements or to obtain the proper permitting.

18 In the West, ideally there would be one RTO, but
19 the fact is we have three. We have the California ISO, RTO
20 West and WestConnect. So, therefore, the regional level in
21 the West would be at the three RTO level, something
22 overarching there. Functions that may work best at a sub-
23 RTO level include local planning and siting and some
24 operations.

25 We think it is useful to distinguish between

1 operational and administrative functions and those that
2 relate to markets. The extent to which RTOs should be
3 required to manage markets should be carefully
4 circumscribed. An ITC or even a nonprofit RTO may not be
5 able to manage markets without compromising its
6 independence.

7 RTOs and ITCs may monitor markets, but there
8 should also be an independent market monitor. The market
9 monitor should be an independent entity in both the for-
10 profit and the not-for-profit models, because the market
11 monitor would be monitoring the RTO itself in addition to
12 the markets.

13 The market monitor should have well defined and
14 independent access to data, and FERC should have direct
15 oversight of the level of funding and performance objectives
16 of the market monitors.

17 The business model or incentive structures of an
18 organization is relevant to the question of which functions
19 it should undertake. The business model may determine the
20 minimum functions and organization will require. If they
21 are truly independent, for-profit RTOs and non-for-profit
22 RTOs should be able to undertake all the functions except
23 for the independent market monitoring function.

24 The business model itself may also dictate those
25 functions an organization should not undertake. For

1 example, TransConnect's governance only permits it to be
2 involved in wire activities.

3 The incentive structure for nonprofit RTOs and
4 for-profit RTOs or ITCs should not be the same. Nonprofit
5 RTOs may require more elaborate incentive structures to
6 achieve the same incentives as a nonprofit organization.
7 For example, to balance reliability with efficient
8 operations or to incent them to innovate with new
9 transmission products and services.

10 In summary, an ITC with an existing RTO, whether
11 the RTO is for profit or not for profit, requires at a
12 minimum the ability to file rates and substantially share in
13 the RTO or other regional planning processes. A for-profit
14 RTO should be able to undertake all RTO functions except
15 market monitoring.

16 And lastly, I'd just like to emphasize and echo
17 that we need to keep exploring, especially in the West where
18 the reality is we have three RTOs in one region. We need to
19 keep exploring having one entity doing overarching functions
20 like providing coordination of bulk transmission planning,
21 market monitoring, OASIS and coordinating seams issues. And
22 having one entity do this may very likely cut down on having
23 several task forces and councils doing single functions and
24 get entrenched in another bureaucracy of work groups, task
25 forces and councils.

1 Thank you very much.

2 MR. COLEMAN: Thanks, Carolyn. Now Jessica Youle
3 from the Salt River Project.

4 MS. YOULE: Good afternoon. I'm one of those
5 cats that Charlie's trying to herd. I am also one of those
6 pesky nonjurisdictional public power entities that appear
7 from time to time. And in the Southwest in particular, we
8 have a whole bunch of those.

9 Over 50 percent of the transmission in the
10 Southwest is owned by nonjurisdictional entities. We've got
11 municipalities. We've got federal power marketing agencies.
12 We've got the Bureau of Reclamation. We've got co-ops.
13 We've got all sorts of districts. It makes for a very
14 complicated situation on trying to devise a structure that
15 will work for everyone. And that is pretty much what we've
16 tried to do in WestConnect.

17 And Charlie has talked about already a lot of the
18 features of WestConnect. We are not at this point a binary
19 structure. What we are, in my opinion anyway, is a very
20 flexible structure that can accommodate all sorts of
21 differences among the participants. And frankly, the public
22 power entities down there have worked very closely with the
23 investor-owned utilities to try to get a structure that will
24 allow different types of entities to participate.

25 And what we are dealing with in addition to the

1 sort of normal PUC authorities for the investor-owned
2 utilities are the RUS, satisfying the RUS, satisfying the
3 IRS, both for co-ops and particular for ourselves, because
4 we have a very stringent private use restrictions on our tax
5 exempt financing that we guard zealously, and innumerable
6 federal statutes that govern WAPA in particular, the Western
7 Power Administration.

8 We have tried to accommodate all these interests
9 in a structure where it is a for-profit transco and a lot of
10 people look at us say, well, how can you be involved with a
11 for-profit transco? What we see the distinguishing points
12 as is, number one, we do not have to take an equity position
13 in this for-profit transco. This is not the old transco
14 where you have to divest, and several people have mentioned
15 that sort of puts public power entities into cardiac arrest,
16 and I guarantee it does. But divestiture is not required.
17 The transco itself does not have to own transmission assets.
18 It may, but there is no forced requirement.

19 An investor-owned utility can be an equity
20 partner in the transco in WestConnect. For a public power
21 entity or a federal entity, you can go in a couple different
22 directions. You can be a lender to the entity, a bona fide
23 lender, take back no equity, and then sign a contractual
24 relationship with the entity for management of your assets.
25 Or in the case of some entities that are interested not in

1 loaning money for startup but just signing a contractual
2 relationship for management of assets.

3 That type of flexibility has been what has
4 enabled the variety of nonjurisdictional entities that we
5 have out there to be participating in the development. That
6 and the cost efficiencies. We are very concerned about cost
7 benefit analyses, cost efficiencies, all those -- making
8 sure that customers get the benefits commensurate with
9 whatever kinds of costs are imposed on them.

10 When we looked at structures, particularly after
11 Desert Star -- and with all due respect, David, looking at
12 this large nonprofit Cal ISO off our one shoulder, we
13 thought we would take a look at some for-profit type of
14 entities, hoping that the motivation would be to cut costs,
15 do things in the most efficient manner possible. Hopefully
16 that's what we've got in WestConnect at this point.

17 We have some differences. I get a little nervous
18 every time I hear -- I realize this isn't the standard
19 market panel, but every time I hear this sort of like the
20 LMP financial rights model, knowing that our model is a
21 little different in that respect, too, and part of that is
22 cost efficiencies again from the public power perspective.

23 We do have a physical rights model at this point.
24 We are looking into a financial rights. But when we looked
25 at what would be the fastest and the easiest and the most

1 cost effective to implement, your systems right now are run
2 on a physical rights basis. You can do that quickly, get it
3 in. It is a very clean way of ensuring particularly for a
4 variety of entities the transmission will be there to meet
5 their statutory and contractual obligations that we have in
6 place. It is also a very clean way to protect ownership
7 rights of nonmembers.

8 And one of the things that we have in the
9 Southwest is numerous jointly owned facilities. We have
10 jointly owned facilities between jurisdictional and
11 nonjurisdictional entities in the Southwest. We jointly own
12 facilities with, for instance, LA Department of Water and
13 Power. Over in California we jointly own facilities with
14 Southern Cal Edison and the Cal ISO, with Nevada Power over
15 in TransConnect. And it is a very clear, fast, easy way of
16 defining whose rights and not having to explain to LADWAP
17 why they're now on a financial model and it'll be coming
18 through sometime.

19 Basically, we think the RTO can perform all the
20 functions. I agree with what's been said here before. We
21 would like to see market monitoring split out from the RTO
22 regardless of its format. But the RTO itself could perform
23 the security coordination, the tariff administrative, the
24 congestion management, OASIS, those kinds of functions
25 without much problem at all.

1 We will be looking into, because we are talking
2 with some of the ITCs around who need another RTO to
3 consider, so we will be looking at those kinds of divisions,
4 but we haven't taken a look at them yet. So we'll be
5 working that out. As Charlie mentioned, we've already sort
6 of done part of the NERC model anyway in terms of the
7 balancing authorities and the self-tracking systems. And
8 this is an item that has proved very important to the public
9 power entities down in the Southwest, because we are staying
10 vertically integrated, to be able to act as that balancing
11 authority.

12 We'll turn over the scheduling to the RTO but
13 retain that type of authority within a metered subsystem or
14 self-tracking system. I've heard a lot of different names
15 for it.

16 But that's in a nutshell where we are in
17 WestConnect. I'll be glad to answer any questions that
18 Charlie flubs up.

19 (Laughter.)

20 MR. COLEMAN: Thanks, Jessica. Actually, one of
21 the things that seems to be passed off her is the passive
22 ownership structure that WestConnect has created in allowing
23 parties to join but not necessarily divest, and that
24 achieves a lot of different objectives for you.

25 I guess an additional comment that I'd like you

1 to speak to would be just the distance between certain
2 resources and loads in the West and how that has affected
3 this, the way that you want to set up functions or may
4 operate functions. Because there does seem to me to be in
5 certain instances a long transmission line in the Eastern
6 Interconnection might be 30, 40 miles. You're not even to
7 your next door neighbor in the West with a 30 or 40-mile
8 transmission line. So how does just the physical structure
9 of the West affect at all how you may set up some of the
10 operations or the functions, or does that really call more
11 for more local intervention than it would be at a regional
12 level?

13 MR. REINHOLD: Well, in certain cases, you're not
14 even at the plant fence in 30 miles. I think that Jessica's
15 comments about the physical rights congestion model that we
16 have developed in large part reflects the construction of
17 generation remote from the urban load centers within the
18 Desert Southwest. For instance, Salt River Project owns
19 facilities in Northwestern Colorado jointly with TriState
20 Generation and Transmission Co-op, Platte River Power
21 Authority, and I believe PacifiCorp is included in those
22 plants as well.

23 So that is a transmission distance of six to
24 seven hundred miles to load in some cases. Southern
25 California Edison owns a portion of the Four Corners plant

1 right at the four corners of the four states, transmits that
2 a similar distance into Southern California. Los Angeles
3 Department of Water and Power owns a portion of Navajo
4 Generating Station. That's a little shorter run by 150
5 miles or so into Los Angeles.

6 So we have this intermixture of different types
7 of participants, different make-up. Federal entities, the
8 municipals, co-ops. We have long transmission lines which
9 were built to essentially export coal from areas where coal
10 is prevalent to load centers. It was more economical in
11 those years to build the transmission facilities than to
12 move the coal. And in order not to upset all of those
13 existing, long-standing arrangements, we migrated into the
14 physical rights model.

15 And that certainly was a model that was well
16 discussed within the stakeholder process and certainly was
17 an area in which there seemed to be a great deal of
18 consensus as we developed that. We are not unmindful of
19 recent efforts here at the Commission and discussions
20 regarding financial models for congestion management, and we
21 certainly are trying to educate ourselves on what impact
22 that would have within WestConnect if a financial rights
23 model needed to be applied.

24 MR. COLEMAN: Kind of a follow up that, though,
25 Charlie, too. Although we don't have representative here

1 from RTO West, they have told us in the last couple of weeks
2 that they had started out with a physical rights model and
3 have gone to one that now has financial rights.

4 In terms of -- and I certainly think that it's
5 worth -- I mean, the Cal ISO and their redesign of their
6 market is certainly looking very strongly to in light of
7 having sort of the two of the three organizations in the
8 West doing that, what in terms of anything has been going on
9 with respect to sort of the seams discussions? I know that
10 there's been a very active seams group among the three that
11 you referenced in terms of how that may affect the way that
12 sort of congestion management might be done in the west.

13 MR. REINHOLD: There is indeed a seams group and
14 in fact it's not solely the three RTOs, or pardon me, the
15 two RTO wannabes and the Cal ISO. Within our Western Market
16 Interface Committee, there is a subcommittee looking at
17 congestion management at the seams. And there are some
18 preliminary reports out trying to get their hands on what
19 the impacts would be at the interfaces between RTOs if one
20 RTO is using a physical model versus a financial model and
21 flow-based versus contract path methodologies.

22 There are, as you would imagine, some impacts of
23 how a schedule will move from one system to another. It
24 appears that, if I remember the preliminary report
25 correctly, it appears that there is not much impact in

1 moving from a flow-based model into the contract path model.
2 There are some conditions where you will see what I think
3 was characterized in the report as phantom congestion if
4 you're going the other way from a pure contract delivery
5 point on a boundary between RTOs into a flow-based model on
6 the other side.

7 We haven't gotten far enough to know whether
8 those can be mitigated with certain procedures within an
9 RTO, which wants to retain the physical rights model, or
10 whether it leads us to the conclusion that simply to get
11 along in the West in the market that we have there that we
12 need to strongly consider a change in WestConnect's design.

13 MR. MILLER: I was trying to distinguish sort of
14 functions and characteristics that you as panelists were
15 going to articulate between RTOs and ITCs. And with the
16 exception of I think there was a clear distinction that,
17 Jessica, you were trying to make with regard to vertically
18 integrated public power and the balancing function and
19 market monitoring. But maybe I just sort of missed it, but
20 I wasn't really hearing much in the way of distinctions
21 being brought out between ITCs, which is kind of what we're
22 here about, although we do need to know about how public
23 power is going to fit into the mix. But the distinction in
24 the functions and characteristics of a large regional RTO
25 and other entities underneath the RTO.

1 And I'm wondering if there are functions beyond
2 say the balancing function that Jessica was talking about
3 for public power. Most of you talked about the separateness
4 of a market monitoring function.

5 MR. REINHOLD: I'd say from WestConnect's
6 perspective, the only other function that I can think of
7 through here is the reliability authority function that I
8 think has to be the responsibility of the RTO. I'm not sure
9 that there is any way that you can cut that any finer and
10 assign pieces of that.

11 For most of the other functions that are listed
12 on this chart in this table, we have found ways to
13 accommodate the desires of individual transmission owners in
14 our market design already when for various reasons, whether
15 it's an IRS complication or RUS oversight of systems,
16 certain functions need to stay closer to home to individual
17 transmission owners.

18 We don't believe that there is any difference in
19 the flexibility approach that we've ingrained into our
20 market design with an independent transmission company.
21 There may well be more functions which can be assigned or
22 delegated to that type of entity simply because of size,
23 probably more likely because of sophistication of operation
24 than size. But certainly I think the independent
25 transmission focus company may be able to perform more

1 functions than other transmission owners might be able to.

2 MR. CANNON: Can I follow up on that and maybe
3 ask you, Carolyn, since you all have a hybrid organization
4 there? You've talked about sharing rate functions, sharing
5 planning functions, and we heard a lot this morning about if
6 there's a conflict or a disagreement of some sort that there
7 has to be some way to resolve that. Most of what I heard
8 this morning was that the larger umbrella RTO was sort of
9 the default. Is that case in terms of RTO West and
10 TransConnect?

11 MS. COWEN: Ideally I think that would be the
12 case, that you'd have an overarching entity, not only just
13 for RTO West, but that would be looking at the whole Western
14 market. They would be making sure that the regional plans
15 fit together and the right things were built, the most
16 efficient things got built and the whole market was out
17 there running smoothly. You wouldn't want an ITC out
18 competing with an RTO on what to build. You would want the
19 right thing to get built.

20 And obviously an ITC is going to be set up to do
21 planning and expansion and file its own rates, because
22 that's what an ITC is all about is attracting the capital,
23 innovating and building the right things. But you wouldn't
24 want that to happen at the expense of the larger regional
25 transmission project that's more needed to be built.

1 So I would think that that overarching entity in
2 the West would be very helpful in coordinating that.

3 MR. CANNON: How about with rates?

4 MS. COWEN: Well, with rates, as far as a hybrid
5 organization goes in an ITC, any incentive rate structures
6 that we file we try to make sure are compatible with the RTO
7 that that transmission owner or that ITC is located within,
8 whether it would be WestConnect, the Cal ISO or RTO West.
9 And I think that if it wasn't compatible that that rate
10 structure wouldn't make it through the regulatory process.
11 It wouldn't be functional.

12 MR. CANNON: I'm just trying to understand. Is
13 there sort of an internal process? And I'm still focusing
14 just on the Northwest right now in terms of how TransConnect
15 works with RTO West to make sure that any particular rate
16 design is indeed compatible and works coherently over the
17 entire Northwestern region. And then you raise a very good
18 point that there's the next question of do we need to start
19 worrying about things working coherently over even a larger
20 Western region, which it sounds like it's a lot of at least
21 preparatory work going on to try to make sure that happens.

22 MS. COWEN: Well, TransConnect does the ITC
23 within the Western region would I think assumes that its
24 incentive rate program needs to be compatible with the RTO,
25 it's filing its rate with whosever tariff it's filing that

1 rate structure within. There's been no process laid out by
2 any of the RTOs on how it would accommodate an ITC's rate
3 structure, but I think that TransConnect as the ITC has
4 assumed that responsibility on itself to make sure that its
5 rate filings are compatible with the RTO tariff.

6 MR. COLEMAN: Kevin?

7 MR. KELLY: The matrix that we handed out at the
8 beginning really asks for division of responsibilities
9 between an RTO and an ITC, but so many of the panelists on
10 this panel have suggested that there ought to be another
11 level West-wide for the whole interconnection that you
12 almost need another column. Are there certain functions
13 that ought to be done West-wide? I know the West has a
14 history of attempting to plan West-wide.

15 But I'm now thinking of the market function as we
16 are looking to our standard market design upcoming
17 rulemaking where we're looking to say an RTO ought to
18 establish markets or be a vehicle for establishing markets
19 on a region, if for the West if there are three RTOs, if
20 we're thinking too small in establishing a market function.
21 That's a two-part question. One is what if any function
22 should be above the RTO level, and in particular could you
23 comment on the market-making function?

24 MR. REINHOLD: Kevin, I believe that there are
25 certainly some areas that functions could exist very well

1 above the RTO level, and market monitoring is one that we've
2 all identified, and it seems to be being embraced by a fair
3 number of stakeholders within our development process as a
4 function that can survive over the top of the multiple RTOs.

5 As far as other market functions, David did
6 mention some areas. We are looking at establishment of a
7 single OASIS for the entire West. Certainly we would like
8 to standardize market products, transmission products across
9 the entire West. There has been only preliminary discussion
10 potentially of a settlements function following that OASIS
11 function throughout the entire West.

12 We think all of those are fair game. We have not
13 gotten to a lot of them at this point.

14 MS. COWEN: I think it would be helpful for any
15 of the functions that you can get agreement amongst the
16 three RTOs to share the better. So any of them, from market
17 monitoring to planning to congestion management, the
18 broader, larger market you can get, the better.

19 MR. RUBIN: I guess I would also add things like
20 scheduling timelines, interconnection rules, reliability
21 criteria so there's consistency throughout the region.

22 MR. KELLY: And if that's the case, if there are
23 so many functions that are carried out above the RTO level,
24 who carries them out? I can either see the WECC, the
25 successor to WSCC, as one entity, although you don't tend to

1 think of a, at least I don't think of a reliability council
2 plus as carrying out those functions. Or it could be that
3 there's sort of an extraordinary level of cooperation among
4 the RTOs so that the interregional cooperation function
5 morphs into something much stronger in the West. At least
6 as a regulator, I kind of wonder if something is not going
7 right, is there an entity out there that's doing it, or is
8 it simply a collaboration?

9 MR. REINHOLD: I guess my take on that is I agree
10 with your preliminary conclusion. I don't think WECC as a
11 reliability council is the correct entity to be taking on a
12 lot of these functions. But I think the collaborative
13 effort can succeed. I think the safeguard is that the
14 individual RTOs are responsible to get it done within their
15 areas. To the extent that they can do it more efficiently
16 and effectively in collaboration with the other two RTOs in
17 the area, I think that's all the better for all of the
18 market participants within the Western Interconnection.

19 I believe that we have adequate dispute
20 resolution procedures in place in the West. We've always
21 seemed to be able to find a forum in which to air disputes.
22 So I think we have the informal means of resolving
23 differences that might arise with that collaboration short
24 of coming back here and arguing in front of you folks.

25 CHAIRMAN WOOD: Well, what's the catalyst for

1 that to happen in a timely manner? For that whole litany of
2 issues as well as the amorphous list that Ms. Cowan didn't
3 lay out of other things that may well? And this was kind of
4 the goal of pushing for one RTO in different parts of the
5 country. For whatever reason, we're not doing that out
6 there. But as a practical matter, to standardize things
7 across what has historically been one reliability region,
8 what is the catalyst for that collaborative to reach that
9 very unusual position of actually resolving something?

10 MR. REINHOLD: I think the catalyst is there in
11 recognizing the efficiencies that we can gain over the
12 entire market. A lot of the concern in the West is that a
13 West-wide RTO is politically not feasible. We certainly
14 don't, or I personally don't see the state regulatory push
15 for a single RTO. And in fact, we see more of a need to
16 retain a little more at a localized look at the system.
17 Certainly Arizona and New Mexico Commissions probably don't
18 want to be trying to determine whether a line west of Hatway
19 in Washington is the right line to build for and have the
20 entities under their regulatory control participating in
21 those.

22 So I think in trying to accommodate a lot of our
23 needs for local control in the West, but yet realizing the
24 nature of the entire Western Interconnection as an
25 integrated market, we are pursuing where it makes sense

1 collaborating on a lot of these issues.

2 CHAIRMAN WOOD: If the Commission comes out in
3 our sister process of standardizing market design on a lot
4 of the issues you laid out -- market monitoring, what a
5 market monitoring unit does, what OASIS looks like, what the
6 standardized minimum set of products would be, how
7 settlements work, what congestion management ought to be,
8 what interconnection looks like, which were kind of a long
9 list that you all laid out of things there. How can that
10 catalyst facilitate getting some closure here and some
11 operational RTOs in the near future? And anybody else can
12 answer too if you like.

13 MR. REINHOLD: I think the order itself would be
14 a pretty significant catalyst.

15 (Laughter.)

16 MR. REINHOLD: I think it enhances the efforts.
17 I don't think it really changes our intent and our focus at
18 this point. But what your order would do certainly would be
19 to narrow the side boards and let us focus not on the entire
20 realm of the possible, but on the realm of the acceptable.

21 CHAIRMAN WOOD: Timeline for the different
22 filings here, because it seems to me if we're going to try
23 to urge the collaboration with catalysts and the like that
24 we ought to be looking at all your work product at about the
25 same time so you all can all specialize on the areas where

1 you need to specialize, but also collaborate on the areas of
2 commonality. So I'm trying to -- I know we've got a filing
3 -- we have a filing from TransConnect in. Is that correct?

4 MS. COWAN: TransConnect and WestConnect made
5 filings in the fall. And I think RTO West is due March 1st.

6 CHAIRMAN WOOD: And then Cal ISO?

7 MR. RUBIN: May 1st.

8 CHAIRMAN WOOD: May 1st? Nora and I were both
9 out at a group meeting in November, the first part of
10 November. We got the kind of the back end of a report on a
11 number of things that had been, at least at the time looked
12 pretty hopeful to me that there was a lot of collaboration
13 on a lot more than who's going to sit where, but a lot of
14 detailed issues. Where is that effort housed today in
15 February? And where does that kind of plug into the
16 process?

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1 In the CREPSI group?

2 MR. REINHOLD: It's broader than CREPSI. We
3 essentially had a seams steering group among the three RTOs
4 with named representatives. At this point, as an ad hoc
5 organization, it does things by consensus. We are working
6 on defining a little more formal contractual relationship
7 among that group. Frankly, under that group where the real
8 work is being done, we do have other work groups and task
9 forces looking at specific issues. The market monitoring is
10 moving a long ways. We did hold the conference in San
11 Francisco in October. We are looking at planning and
12 coordination of planning among the three RTOs even prior to
13 full RTO operation and formation.

14 We certainly recognize that with the merger of
15 the Regional Transmission Associations into WECC. We're
16 losing a piece of the avenue of local planning that the RTOs
17 helped us perform but we think the RTOs, in cooperation with
18 each other, can fill that void very well.

19 MR. COLEMAN: That will do it. I want to thank
20 you all for participating. We'll change hats here again and
21 start the next group at 3:35.

22 (Recess.)

23 MR. RODGERS: Why don't we go ahead and get
24 started with our final panel for the day. In this panel, we
25 have several representatives from various entities in the

1 eastern part of the United States that are going to address
2 the questions we are dealing with in this Conference.

3 Before we get to our first panelist, I want to mention that
4 the handouts for the first two panelists are posted on the
5 Commission's Web site, if you are watching from a remote
6 location and would like to follow along with those handouts.

7 I'd also like to mention that the NERC functional
8 definitions and functional model that were referred to in
9 Don Benjamin's presentation this morning are also on the
10 Commission's Web site under this conference, as well as Mr.
11 Benjamin's presentation from this morning if you would like
12 to access that.

13 Without further adieu, why don't we turn our
14 attention to Michael Kormos, the General Manager of
15 Operations for PJM. Thanks for coming, Michael.

16 MR. KORMOS: Thank you for having me. You should
17 have a copy of my written comments. I'm not going to read
18 them, I'm just going to try to summarize some of the main
19 points that I tried to make in there in order to save a
20 little bit of time.

21 The first point I'd like to make is PJM is
22 actually very supportive of for-profit transmission
23 companies no matter what the corporate form takes. We
24 believe they can actually offer a value-added product in
25 servicing our markets. We believe they should be actually

1 competing with generation load and demand response. I was
2 actually a little disappointed in hearing some of the former
3 speakers talk about not competing. We think the next
4 generation of issues we're going to deal with is when you
5 have congestion issues, how do you get the best solution on
6 the table, whether that's adding generation, removing load
7 or in fact increasing transmission capability. We believe
8 that needs to be a competitive process in order to ensure
9 that consumers get the best value. But we believe they
10 should be able to compete on an equitable basis in helping
11 us deal with these issues.

12 We've actually had a number of discussions with
13 both the Northeast TO and others in developing an ITC
14 concept. We actually have made a commitment with Allegheny
15 power as part of PJM West Phase Two, that we will further
16 develop some of the concepts I'm going to mention as I go
17 through my talk. Our model may be a little different and
18 maybe more in line with what Larry Ruff was talking about.

19 We believe the value added products and services
20 that can be done through a for-profit transmission company
21 predominantly are going to be in the financial world in the
22 financial markets. There are ways for them to take risks on
23 the performance of their systems as well as make competitive
24 enhancement of their systems. That can be done financially
25 which resolves a lot of the operational functional control

1 issues and allows multiple people to do it.

2 Just to go quickly through your questions, I
3 actually liked your questions, I just thought you got them
4 in the wrong order. I think first off we need to understand
5 what the business model is for an ITC. A lot of what I
6 heard today to me sounded a lot like just transmission
7 owners. I didn't really hear the value-added product, what
8 the business model is, how are they going to make money
9 above and beyond the current revenue requirement that
10 happens today?

11 I think we need to understand that. Once we
12 understand that business model, then we can look at what
13 functions do they need and easily deal with that. I think
14 there's a lot of fear right now to give them the functions
15 without understanding how they're going to use them and how
16 they're going to make money off of them. So I think we
17 clearly understand what the business model is. We can look
18 at those functions and then look at what can actually be
19 separated from an RTO.

20 I will give you my warning, being in operations
21 for 13 years, I think there are very few functions that are
22 transmission-only or markets-only. I operate a power
23 system. By definition, a power system is the integration of
24 transmission with load with generation. Separating those
25 functions really can create some issues and create

1 inefficiencies in that. Assuming that we can do that and
2 don't create any artificial barriers, either to reliability
3 or the competitive markets, I think the best question you
4 did ask was the size and scope.

5 Again, I think it's obvious that the larger
6 regional markets are obviously the best answer. The larger
7 we can make the market, whatever is practical, is the right
8 way to go. But I do believe you can actually subdivide
9 things on a subregional level if it's done properly. And
10 again I would go back to the financial model. I think you
11 can easily see that multiple entities can offer financial
12 products in a subregion in a larger market without truly
13 impacting anybody above them, anybody in the larger market
14 or disrupting that larger market.

15 I think when you start to talk about business
16 models where people talk about physical control, at that
17 point it becomes an issue as how two different entities
18 physically control the same assets. When you start talking
19 about multiple entities, how do multiple entities try to
20 control the very same assets?

21 Again, I think it's another reason we need to
22 understand the model, particularly if we can do things more
23 in the financial world. I think if we in fact answer those
24 three questions, I think the functions will fall out. I
25 think there'll be a lot less debate and a lot less issues.

1 I think again right now most people are just worried about
2 how they'll be used to make money. The more we can flesh
3 that out, the better we can understand it, the further we
4 can go.

5 Real quickly just a little bit about operating
6 the system and what can be carved out or not. It's
7 important to realize that at least in PJM's model location
8 marginal pricing, I think one of the strengths of our
9 markets is the fact that we actually did not try to
10 artificially separate generation from transmission. We run
11 a power system. A power system requires coordinating not
12 only for transmission security violations, but balancing
13 generation and load. And I think if you go and start to try
14 to break down those functions into separate entities, you do
15 stand a very large challenge in whether that will actually
16 work as effectively as them being combined.

17 I think if you look at generation dispatch,
18 transmission security, load falling, they are basically all
19 using the same resources. The last thing you necessarily
20 want is finding this. And I think Commissioner Massey asked
21 a very good question about security constrained economic
22 dispatch. That's a prime example, again, if we can agree,
23 that that is required, then it's obvious that in order to
24 truly do securely constrained economic dispatch, you need
25 one entity who's monitoring the transmission system.

1 Redistributing transmission is the most cost effective way
2 for that at the same time balancing the generation for load
3 and not to separate those two. You can't have two entities
4 during security constraint dispatch in the same area. To be
5 honest with you, they would fight each other almost all the
6 time.

7 Areas like that are areas we need to look at.
8 The last area is transmission service. This again goes back
9 down to our model. One of the strengths of locational
10 pricing in the financial model is the fact that we don't
11 need to track who is on the system in real time. We don't
12 have to worry about physically who was allowed to be there.
13 The theory is everybody who's on the system will pay the
14 difference in locational pricing. Transmission price is
15 inherent in the price. That simplifies operations
16 significantly. Those who have the right to be on it have
17 financial hedges to protect themselves. Therefore you don't
18 need to try to physically track who has it. That gives a
19 lot of flexibility to our members and our participants as
20 well as making it much easier to operate the system and use
21 the optimization tools such as security constrained
22 dispatch.

23 If we were to take a model that were to try to
24 overlay some kind of physical rights on top of that, again
25 you could see how you could actually break the model itself

1 with trying to overlay two different types of models.
2 Again, it becomes very important as to how the ITC plans on
3 making money, what the products are that they will be
4 offering.

5 Just to summarize, again PJM is committed and
6 supports the development of the ITC. Hopefully again we'll
7 be able to further flesh out some ideas with Allegheny
8 power. We believe the determination of the ITC business
9 model is the next critical issue that needs to be resolved
10 so we can move forward. We honestly believe financial
11 solutions will work much better in the market that we run
12 versus physical command and control. We do believe that
13 transmission should be competitive with generation and
14 demand response. We believe it is a three-legged stool and
15 each of those areas should compete against each other.

16 And then again the last one just is once we do
17 get around the slicing and dicing functions we need to be
18 very careful not destroying some of the things that made the
19 competitive markets work. So I'll look forward to answering
20 any questions you might have. Thank you.

21 MR. RODGERS: Thank you. Michael, in keeping
22 with our format in the earlier panels earlier today, why
23 don't we go on to the next panelist and we'll take questions
24 after all have spoken. Next we'll have Kevin Kirby, Vice
25 President of Market Operations at ISO-New England.

1 MR. KIRBY: Thank you, good afternoon. I'll keep
2 my comments brief as well. I'd like to start off by noting
3 that ISO New England has historically supported the binary
4 model, recognizing the value added that we can get from the
5 independent transmission company, as we've seen from our
6 transmission company providers in New England to date.

7 In January 2001, in proposal for the Northeast
8 RTO in the New England area we focused on dividing the scope
9 primarily driven or focused on the impartiality of the ISO,
10 the public service elements of that and where the ITC could
11 add value through optimization of their resources including
12 strategic investments for efficiency improvements as well as
13 improved maintenance practices.

14 More recently through the mediation process in
15 the summer, and in discussions which emanated from that, we
16 did sign an agreement with the New York ISO to work on a
17 common market initiative for the MPCC area with Canadian
18 entities that may elect to participate in that. I bring
19 that up in a sense of what's changed from the filing of last
20 year to what we're dealing with this year based on feedback
21 from the Commission in the more recent orders is that the
22 scope of the more recent presentation of a year ago was
23 insufficient for the purposes of the Commission. In it, we
24 did have an ITC that was coterminous with the ISO.

25 What's envisioned is once the RTO region gets

1 larger is that we would have one or more ITCs within it, and
2 there would be a subregional aspect to the ITC to their
3 scope of responsibilities and how that might coordinate with
4 the larger RTO.

5 One of the core principles that we used in the
6 binary model that the RTO responsibilities should be
7 allocated to the RTO or to the ISO in areas in which the
8 perception and reality of independence and financial
9 impartiality are critical to the confidence of the markets.

10 One of those areas that we looked at was in the
11 planning area. We devised a system for New England that was
12 built largely on some of the earlier efforts of PJM in that
13 we have the ISO providing the needs analysis which then
14 identifies the areas' weakness in the system. The emerging
15 congestion areas, the forecast of needs over a larger
16 period, then solicits responses from the marketplace
17 including transmission responses and the transmission
18 companies optimization of their systems to satisfy those
19 needs and economically compete with the other solutions that
20 might be out there.

21 I would agree with Mike in terms of the market
22 operations. It's really power system operations, the
23 decisions on dispatching, transmission or generation are
24 integral to each other affect the markets, the separation of
25 that is, in our estimation, not really feasible. That led

1 also into the division that we showed last year where there
2 was really only one system operator and that the ultimate
3 decisions in the real time were left to the ISO in that
4 context.

5 OASIS administration similarly should be on a
6 larger regional basis. Security coordination or the
7 reliability authority, we would also see as being critical
8 to the larger regional organization with some sub-regional
9 optimization being done by the ITCs.

10 Our experience to date in New England has been
11 that we have received so many valuable services from the
12 transmission companies, particularly in the areas of
13 emergency response where we've delegated authority to them,
14 switching, tagging responsibilities in emergency conditions,
15 if we were to need to call on the load shutting or
16 interruptible loads is done through the local transmission
17 entity who is closer to the load than we are.

18 We also, when we built up the regional plans,
19 would take into consideration those local constraints
20 through their plans as input to the larger regional plan,
21 and then go on back through the iterative process to come up
22 with a more robust regional plan.

23 With respect to defining us purely on
24 transmission and market distinctions, again we see the
25 transmission decisions being integral in terms of day to day

1 operations to the marketplace, so we don't see that as being
2 dispositive in terms of how we would divide that,
3 particularly in the case of LMP-type systems for congestion
4 management or that's really tied into the marketplace
5 decisions.

6 The business model, I would agree with Mike and
7 some of the commenters earlier. It is important to
8 understand what the respective roles are. With the ITC
9 formation as proposed in New England, we looked at anything
10 to do with the short term reliability of the system
11 operations was critical to stay within one entity control
12 because of that. On the other hand, it was important that
13 the management responsibilities that went with the ITC were
14 sufficient to make that company viable for investors and to
15 carry out its responsibilities. Thank you.

16 MR. RODGERS: Thank you, Kevin. Next, we'll hear
17 from Amir Shalaby, Manager of Regulatory and Governmental
18 Affairs with the Ontario IMO.

19 MR. SHALABY: Thank you for inviting the
20 independent market operator to contribute to this
21 conference. I appreciate the opportunity. The background
22 to the allocation of functions in Ontario goes back to the
23 late nineties, '97, '98. I'm giving you the short story
24 rather than the long treatise here. The short story is that
25 Larry Ruff was our main architect of our market. The advice

1 that he gave, he's standing by his story as I heard him this
2 morning. It worked. The evidence of the northeast markets
3 shows that that design, that division of accountabilities,
4 that integrated nature of functions, the dispatch, the
5 allocation of transmission, the pricing, that integrated web
6 of activities, as he described this morning, is what we're
7 adopting in Ontario, so it's a design that gives the IMO in
8 Ontario most of the functions in Order 2000.

9 We also embraced a view of encouraging a for-
10 profit gridco in Ontario. We have four transmitters in
11 Ontario, one dominant one, one very large one, a hydro one.
12 The Commission here last week approved a permit for an
13 merchants' transmission product that that hydro one is party
14 to. So merchant transmission is already underway out of
15 Ontario. The belief we have is separation of things that
16 are needing independence stay with the IMO and most of the
17 functions in Order 2000 need the independence and they stay
18 with the RTO or the IMO.

19 Things that need the management competency and
20 need the customer focus, the words that we heard today from
21 transmission owners and operators can remain with and should
22 remain with a properly incented and properly monitored
23 transmission organization, transmission owner or
24 transmission function. That's precisely the intent and the
25 design that we have in Ontario.

1 The next frontier in my view is in the
2 performance indicators is the planning cycle. As many
3 speakers said today, it's unfinished work, it's still not
4 totally figured out, planning for transmission. So
5 integrated planning or planning for transmission is still to
6 be worked out. Monitoring performance and performance
7 incentives for transmission is still to be worked out fully
8 to give the incentives for participation in offering value
9 to the marketplace for benefitting from solving congestion
10 or providing added reliability. Transmission owners have to
11 benefit from that, have the incentive for that. There's no
12 easy path to that yet.

13 So my conclusion, listening to today's
14 discussions and doing some readings over the last several
15 weeks is that I think allocation of function is pretty well
16 behind us in my view. The next frontier is defining
17 relationship between the independent transmission companies
18 and the RTOs via performance, via planning process, via
19 regulatory backstop. That's where the next frontier is.
20 I'll be pleased to give you more background on Ontario if
21 you wish to hear it.

22 The size of the dollar was a sore point with
23 Canadians but there we go. This big buck/little buck panel
24 was a comment that reminds of --

25 CHAIRMAN WOOD: Let me clarify that. That was

1 the morning's big buck panel.

2 (Laughter.)

3 CHAIRMAN WOOD: All you guys are big buck panels
4 in the afternoon.

5 MR. SHALABY: We convinced each other of that
6 before we said that.

7 (Laughter.)

8 MR. SHALABY: Thank you.

9 MR. RODGERS: Thank you, Amir.

10 Next, we'll hear from Chris Falon, the Manager of
11 Transmission Planning for Duke Energy Company. He is here
12 today representing Grid South.

13 MR. FALON: Thank you. Good afternoon, Mr.
14 Chairman, Commissioners. I'm Chris Falon, Manager of
15 Transmission Planning at Duke Power. In addition to my
16 duties as transmission planning manager, I'm the planning
17 manager for Duke Power's RTO efforts. Today, I'm speaking
18 on behalf of the Grid South sponsors, Carolina Power &
19 Light, South Carolina Electric & Gas, and Duke.

20 By way of background, Grid South sponsors have
21 been working together for a number of years to form a
22 transmission organization for the Carolinas. Following the
23 Commission's issuance of Order Number 2000, we've redoubled
24 our efforts, which culminated in a complete RTO application
25 that was filed in October 2000. During the spring of 2001,

1 the Commission provisionally approved Grid South, and since
2 then we have moved forward to develop the infrastructure for
3 an RTO to serve the Carolinas.

4 It is important to note that the Grid South
5 infrastructure has been designed to accommodate both the
6 Carolina-sized RTO and a larger RTO operation. The systems
7 that Grid South has developed are scalable to provide
8 greater scope of operations. Currently, Grid South is very
9 close to operational readiness. The building is complete
10 and the systems are in the final stages of testing.
11 Unfortunately, we are unable to move forward due to the
12 regulatory surrounding RTO matters. Further, the Grid South
13 applicants are continuing to work with others towards
14 development of a seamless wholesale market for the region,
15 as evidenced by our MOU with the Se Trans group.

16 As you know, our original application
17 contemplated that the Grid South would be a transco. As a
18 business model, we believe that the transco concept provides
19 the best vehicle for creating a strong independent
20 transmission business. However, we recognize that segments
21 of the industry may believe that certain functions should be
22 performed by an entity that will not earn a profit on
23 transmission assets. We respect that perspective and are
24 evaluating other non-transmission asset earning RTO models
25 which achieve the goals of the transco while offering more

1 explicitly neutral market administration.

2 As a component of such models, independent
3 transmission companies would exist as the vehicles for
4 ownership of and investment in transmission in conjunction
5 with the RTO's functional control of those assets. For such
6 a model to be successful, there must be a proper allocation
7 of functions between the RTO on one hand and the ITCs or
8 transmission owners on the other hand. In particular, the
9 ITC would have no greater operational authority than any
10 other transmission owner that operates a control area, but
11 an ITC would have additional authority in the functions that
12 most closely reflect ownership attributes, planning and rate
13 design.

14 To simplify the discussion of the functions,
15 we've distilled the function allocation matrix provided by
16 the Commission down to five general categories; market
17 design and operations, tariff administration, transmission
18 operations, planning, and oversight which includes the
19 market monitoring and dispute resolution.

20 Before I delve into a detailed discussion of each
21 category, I would summarize Grid South's position on the
22 allocation of functions as follows: For the first two
23 categories, market design and operations and tariff
24 administration, the allocation of functions is relatively
25 simple. The responsibility for the majority of these

1 functions should reside in the RTO. For the second two
2 functions, transmission operations and transmission
3 planning, the allocation of responsibility of these
4 functions is much more complicated due to the complex nature
5 of the power system and state regulatory obligations
6 retained by some of the transmission owners.

7 The final general category is oversight. The
8 oversight functions, such as market monitoring, are vitally
9 important to a properly functioning market but can be
10 performed either within the RTO or by a totally independent
11 market monitoring unit.

12 More specifically, in the category of market
13 designs and operations, we believe that the RTO should have
14 full authority to develop and implement the markets for
15 energy, capacity, and ancillary services. It should also
16 include regional congestion pricing methodologies and
17 financial transmission rights.

18 One of the specific questions asked by the
19 Commission was from the perspective of engineering and
20 economic efficiency, is it more appropriate to have certain
21 functions administered over as large a region as possible?
22 As it relates to market design and operation, the answer to
23 this question is a qualified yes. Our qualifications to
24 this answer are as follows:

25 One, a larger market does not necessarily mean

1 one RTO. Multiple RTOs with a standard market design and
2 seams agreements can serve as one market for the
3 marketplace.

4 Two, the industry does not fully understand the
5 technical limitations of implementing very large markets
6 yet.

7 In the second category, tariff administration,
8 which includes OASIS management we believe the
9 responsibility for this function should reside in the RTO in
10 order to meet the Order 2000 requirement that the RTO be the
11 sole provider of transmission service and to meet the market
12 participants' desire for one-stop shopping. While the RTO
13 would retain full Section 205 rights to modify its tariff,
14 the transmission owners and ITCs would retain Section 205
15 rights over their revenue requirements. However, there
16 should be a process that allows the ITC to propose to FERC
17 performance-based rates for innovative services within its
18 footprint.

19 In the context of tariff administration, the
20 answer to the Commission's question as to whether that
21 function should be administered over as large a region as
22 possible is yes. There should only be one tariff for the
23 RTO and the RTO should be the single tariff administrator
24 for the region.

25 The next two general categories of functions,

1 transmission operation and planning, are areas where various
2 functions can be allocated between the RTO or the ITC
3 transmission owner. For example, in the area of
4 transmission operations, the RTO would be the security
5 coordinator for the overall region with full responsibility
6 for intraregion reliability. In addition, the RTO would be
7 responsible for managing congestion, managing parallel
8 flows, calculating TTC and ATC, approving transmission
9 maintenance schedules and establishing emergency plans.

10 Functions that would be shared with a control
11 area operator, whether an ITC or a transmission owner,
12 include implementation of interchange schedules, redispatch
13 of generation for emergencies, and implementation of
14 transaction curtailments. In each of these cases, the RTO
15 has the ultimate authority to provide direction. The role
16 of the control area is to implement the RTO's direction.

17 Functions that should reside solely within the
18 ITC or transmission owner include the physical operation of
19 the system, establishing equipment ratings and establishing
20 operating procedures. How an asset owner rates and operates
21 its equipment is directly related to the life expectancy and
22 performance of that equipment, hence each asset owner must
23 be allowed to determine its equipment ratings based on its
24 business strategy and risk tolerance.

25 The question as to whether consolidating

1 transmission operations over as large a region as possible
2 makes engineering or economic sense is a very difficult one.
3 I do not know the answer. However, I believe there is a
4 limit to the area the RTO can operate reliably. In the rush
5 for large RTOs, no one has proven that and RTO can operate
6 such a large system reliably.

7 One solution may be smaller RTOs that have common
8 market design which provides the customers the seamless
9 marketplace they desire while maintaining reliability rather
10 than overreaching as to size at the expense of reliability.
11 As the industry gains experience with the operation of RTOs,
12 market forces will drive RTOs to their optimal size.

13 In the category of planning, various functions
14 can be allocated between the RTO and the ITC or transmission
15 owner. Planning is a fundamental aspect of transmission
16 ownership and hence because of its independence, the ITC can
17 retain additional planning authority. Also, since many
18 transmission owners retain the regulatory obligation to
19 serve retail customers, the overall planning process must be
20 able to accommodate this obligation. We believe that it's
21 critical that an ITC have primary responsibility for
22 planning its system and making the necessary investments and
23 upgrades and expansion within its system. The ITC will
24 perform local planning in its footprint necessary to meet
25 the needs of the load-serving entities including the

1 identification of projects to eliminate congestion, system
2 impact studies within its footprint and interconnection
3 studies within its footprint.

4 However, the RTO will retain review and approval
5 authority over all decisions made by the ITC subject to FERC
6 review. A transmission owner should be allowed to perform
7 local area planning for facilities in its footprint. As is
8 the case of the ITC, the RTO will retain review and approval
9 authority over all decisions made by the transmission owner,
10 subject to standards that require the RTO to respect the
11 transmission owner's obligation to serve retail customers.

12 In the transmission owner's footprint, the RTO
13 would have the responsibility to perform system impact
14 studies and interconnection studies. As to the question of
15 the optimal scope of the planning responsibility, planning
16 activities can be more effectively administered on a sub-
17 regional basis but should be coordinated over as large a
18 region as possible.

19 The final category of functions is the oversight
20 function. The oversight functions of market monitoring and
21 dispute resolution, while critical to the market, are not
22 critical to the business structure of an RTO. For that
23 reason, these functions can be handled by the RTO or a third
24 party independent of the RTO and all market participants.
25 The market oversight function should be administered across

1 a region that coincides with the natural market.

2 This concludes my prepared remarks. Thank you
3 again for the opportunity to speak today. I look forward to
4 answering any questions.

5 MR. RODGERS: Thank you, Chris. Let's next turn
6 to Frank Gallaher, Senior Vice President of Entergy
7 Corporation. He's going to be speaking on behalf of
8 SE Trans.

9 MR. GALLAHER: Let me correct one thing. I'll be
10 speaking on behalf of Entergy. I believe what I am saying
11 is in concert with what we are doing in SE Trans but I'm not
12 speaking on behalf of SE Trans. I have been involved in
13 Entergy's efforts to transfer its transmission efforts to an
14 independent organization since 1998 when Entergy became one
15 of the first transmission owners to announce plans to create
16 a transco, an independent, incentive-driven transmission
17 company to operate the transmission system in the region. I
18 was directly involved in the evolution of Entergy's transco
19 from a stand alone transco to an independent transmission
20 company or an ITC operating within a larger regional
21 organization. Entergy now intends that its ITC will operate
22 as part of the SE Trans RTO which includes the southern
23 companies and a number of large public power entities in the
24 southeast region.

25 I am pleased to discuss with the Commission

1 Entergy's views on the proper allocation of RTO
2 characteristics and functions between an ITC and the larger
3 RTO within which it operates. Order Number 2000 requires an
4 RTO to satisfy four minimum characteristics and eight
5 minimum functions. However, Order Number 2000 does not
6 require a single organization to perform all of the RTO's
7 functions. Rather, it expressly granted utilities the
8 flexibility to form binary or tiered RTO structures in which
9 functions are shared among different entities.

10 The Commission has subsequently recognized that
11 an RTO structure with an ITC sharing functions with a larger
12 region entity is consistent with Order 2000. The Commission
13 preliminarily approved such a binary RTO structure in the
14 cases of the Midwest ISO, Commonwealth Edison, RTO West,
15 TransConnect and New England ISO New England ITC. The
16 Commission recognized that when the ITC is structured
17 independently, it is appropriate for the ITC to share RTO
18 functions with a larger regional organization.

19 Based on the Commission's guidance regarding
20 binary RTOs and comments from our own state commissions and
21 stakeholders, Entergy decided to change its plans from a
22 stand alone transco to an ITC operating within the Southwest
23 Power Pool. Entergy and the SPP negotiated a memorandum of
24 understanding describing the allocation of functions between
25 the ITC and the SPP. Entergy and the SPP worked with

1 stakeholders to develop detailed protocols to describe and
2 govern the allocation functions. However, in July of last
3 year, the Commission rejected the proposed Entergy SPP RTO
4 and instead required Entergy to engage in a mediation to
5 form a single RTO for the Southeast Region.

6 During the Southeast RTO mediation last summer,
7 Entergy's plans to operate an ITC within a larger regional
8 organization further evolved as a result of extensive
9 stakeholder input and negotiations with other transmission
10 owners. During that mediation, many parties expressed a
11 concern that allowing the ITC to have too much independent
12 authority would decrease the efficiency of the RTO and
13 reduce the benefits created by the RTO's large scope. As a
14 result, Entergy agreed to modify its ITC proposal to better
15 address these concerns.

16 In particular, Entergy agreed that the ITC would
17 have no more operational authority than any other
18 participating transmission owner that operated its own
19 control area. Entergy further determined that at bottom
20 there were only two areas where the ITC needed to have
21 additional authority. Those two areas were planning and
22 rates. When Entergy subsequently decided to join the
23 SE Trans RTO and to have Entergy's ITC operate within the
24 SE Trans RTO, Entergy agreed that its ITC would have
25 increased authority only in these two areas.

1 With respect to planning, there are three areas
2 where we feel the ITC should have increased authority. The
3 first area is local area planning, which is the planning for
4 the facilities that are within the ITC footprint necessary
5 to satisfy the needs of load serving entities served by the
6 ITC's transmission system. Such planning would also include
7 the identification of candidate projects to reduce or
8 eliminate congestion within the ITC footprint.

9 The second area is in performing the system
10 impact studies for ITC facilities that are necessary to
11 evaluate requests for firm transmission service.

12 The third area where the ITC is given a planning
13 role is in performing interconnection studies. The ITC
14 should have the responsibility to evaluate any request to
15 interconnect to ITC transmission facilities, and to perform
16 the studies in compliance with the generation
17 interconnection's procedures that have been established by
18 the RTO. This delegation of planning authority to the ITC
19 is consistent with Commission precedent in the cases
20 involving RTO West, TransConnect, and New England ISO New
21 England ITC.

22 In the area of rates, the ITC should have the
23 authority to propose rate design and incentive rates for the
24 ITC that would apply to the revenue requirement that is
25 included in an RTO's rates and to unilaterally make Section

1 205 filings with the Commission to incorporate incentives
2 and performance-based rates as part of this revenue
3 requirement.

4 In the case of the RTO West TransConnect
5 approval, the Commission has preliminarily approved
6 delegation of this authority to an ITC. It is important
7 that the ITC have this authority over certain aspects of
8 planning and rates. This authority is necessary to allow
9 the ITC to operate as an effective transmission business
10 that has the incentive to enhance the transmission and that
11 can attract capital for transmission improvement projects.
12 If an entity that does not own the transmission assets is
13 vested with this authority, we think that entity would not
14 have the proper motivation to officially expand the
15 transmission system.

16 Finally, I would like to respond directly to
17 several of the questions raised in the Commission's
18 February 14th Notice of Technical Conference Organization.
19 First, I agree with the Commission that in allocating
20 functions and responsibilities, it is useful to distinguish
21 between functions related to transmission grid operations
22 and administration versus operating and overseeing wholesale
23 power markets.

24 Second, one of the main benefits of the SE Trans
25 proposal is that it seeks to establish a single, seamless

1 energy market for the entire southeast. This would be true
2 regardless of the number of RTOs that might eventually
3 emerge. Thus, as the SE Trans sponsors told the Commission
4 last November, the focus on regional scope should shift from
5 the establishment of a single governance model for the RTO
6 to the establishment and operation of a single energy market
7 for the southeast region. This goal should be paramount in
8 the Commission's mind as it allocates functional
9 responsibilities between separate entities with a specific
10 region such as the southeast. Clearly, in my view, having a
11 single entity operate a single, seamless energy market over
12 as large a region as possible will create significant
13 efficiency gains for the southeast.

14 I appreciate your giving me this opportunity to
15 speak to you today. I will be happy to answer any questions
16 that you might have.

17 MR. RODGERS: Thank you very much. Now let's
18 hear from our last panelist, Brad Para, Director of
19 Legislative Affairs with JEA, the Jacksonville Electric
20 Authority which is a SE Trans sponsor.

21 MR. PARA: Thank you. I appreciate you inviting
22 JEA to speak here today. JEA is the municipal electric
23 utility serving Jacksonville, Florida and the surrounding
24 areas of northeast Florida. JEA is a sponsor of the
25 proposed SE Trans RTO. JEA's physical location at the

1 transmission gateway to Florida, a constrained interface,
2 drives our decisions on RTO participation. I've given you
3 our responses to your Attachment B matrix, and I'd like to
4 comment on just five specific areas: Why have an RTO,
5 native load considerations, control areas, private use
6 restrictions, and RTO participation.

7 First, why have an RTO. The primary benefit of
8 the SE Trans RTO is to provide a single seamless
9 transmission grid which would allow for the development of a
10 liquid, robust energy market in the southeast. JEA does not
11 see a benefit from having the same RTO that will manage and
12 oversee the transmission grid, also managing the energy
13 market. In fact, we see that as a return to the bundled
14 service environment which we've only begun to move away
15 from.

16 In order to address this, we have encouraged, and
17 SE Trans has built in an opt-out provision in its LMP
18 structure whereby an entity can retain its physical rights
19 to transmission built for its native load. This is an
20 important feature for JEA and a key element for our
21 continued participation in SE Trans.

22 Second, native load considerations. JEA's native
23 load must be protected. Our customers who built and paid
24 for the existing transmission system must not be forced into
25 uneconomical shifting of costs or revenues. The economics

1 and operating procedures of RTOs must reflect historic
2 transmission investment and revenues. This is why we have
3 insisted on physical rights options. It is not an
4 acceptable outcome to argue that the general benefits of the
5 RTO, benefits which are available to everyone, are
6 sufficient for JEA's customers to forego the specific
7 benefits of their planning and investment. Clearly, RTOs
8 are good for people who are under invested in transmission.
9 By contrast, it is not so clear yet if it's a good deal for
10 people who have already adequately invested in transmission
11 for their future needs.

12 Third, on control areas, we feel that it would be
13 inappropriate to expect or to encourage a single RTO-wide
14 control area. This is not a transmission issue, it's a load
15 and resource balancing issue. If consolidation of existing
16 control areas makes economic sense, then the market can
17 supply control area services to those affected load-serving
18 entities.

19 Fourth on private use. Private use restrictions
20 on public power-owned transmission assets remain a major
21 obstacle to the proposed RTOs in the southeast. While JEA
22 is working hard within SE Trans to draft around the problem,
23 private use issues still have major implications for rate
24 design, and in particular for the RTO's ability to make
25 long-term transmission service commitments.

1 Finally on participation, RTO's participation
2 should remain voluntary in fact as well as in law. RTO
3 tariffs should not discriminate against transmission owners
4 who choose not to join.

5 I would be happy to respond to your questions on
6 these issues and on the attached matrix. Thank you.

7 MR. RODGERS: I had a question for Amir just to
8 clarify something I understood in your remarks. Could you
9 clarify what specific RTO functions among the eight that you
10 think could or should be done by an independent transmission
11 company?

12 MR. SHALABY: Yes, I'll expand on that. The
13 functions, in Ontario at least, are the rate design and the
14 application for rate revenue requirements is a function that
15 is allocated to the transmission owners. The area planning,
16 as I indicated, is a shared and complex process. The
17 transmission owners definitely have a role in that. Those
18 are the two that have transmission owner participation in a
19 big way.

20 The OASIS, TTC and ATC is not something that we
21 engage in in a big way in Ontario, given our market design
22 will be on financial transmission arrangements rather than
23 physical ones, so that is not something that we engage in in
24 a heavy way.

25 MR. RODGERS: I had a question I guess for either

1 Mr. Falon or Mr. Gallaher. If I understood Audrey Zibelman
2 earlier, she was saying that an ITC in her view provided an
3 important link between an umbrella organization and the
4 states, state commissions. Would you share that view?

5 MR. GALLAHER: I think it can provide an
6 important link. I think as I mentioned one of the functions
7 that the ITC should retain is the planning for its
8 footprint. I think that the state commissions could well be
9 more comfortable with a more regionally-located entity doing
10 the planning in its footprint than if it is doing planning
11 for a much larger region. That opinion may vary by state
12 regulatory body but I'm of the opinion that they think that
13 that might be better for a particular region that they have
14 jurisdiction.

15 MR. RODGERS: To follow up on that, if I
16 understood your comment earlier, Mr. Gallaher, you said that
17 the Entergy SPP proposal had been spurred in part by
18 suggestions of state regulators. I was wondering if the
19 SE Trans proponents have had much opportunity to talk to the
20 state regulators about the latest proposal that Entergy is
21 involved with and in particular the allocation of RTO
22 functions, any of those kind of matters that are the subject
23 of this conference.

24 MR. GALLAHER: The state regulators have
25 participated in the SE Trans stakeholder process, especially

1 the regulators from our area rather substantially. We have,
2 not only through the stakeholder process but individually,
3 we have worked with each of our regulators to describe the
4 SE Trans proposal and to answer any questions that they may
5 have about it. So I'm of the opinion that they are familiar
6 with the proposal and are continuing to obtain information
7 about it from both us -- us being Entergy -- and through the
8 SE Trans stakeholder process.

9 MR. RODGERS: Thank you.

10 CHAIRMAN WOOD: Mr. Kormos, when you heard the
11 last two gentlemen talking about the importance of focusing
12 on a single energy market, rather than a single organization
13 based on PJM's experience and I guess also with your issues
14 recently of Allegheny as well, is that achievable?

15 MR. KORMOS: I think in fact having a single
16 energy market over multiple control areas is exactly what we
17 plan on doing with PJM West and Allegheny. They will be a
18 separate control area. The difference though is that we
19 will have one economic security constrained dispatch over
20 the entire area. There is in fact one centralized
21 dispatched over one area and we'll be dynamically scheduling
22 the ties between the two.

23 CHAIRMAN WOOD: Explain to me how, walk through
24 what that distinction is.

25 MR. KORMOS: The distinction really is when we go

1 back to Don Benjamin's functions for the control areas, PJM
2 in fact would actually be the reliability coordinator or
3 entity, the balancing entity. We would do the interchange
4 transactions all for Allegheny so we would take on those
5 responsible for balancing load and generation for the entire
6 region and not do it individually on control areas so we
7 could in fact come up with the most economic mix to both
8 meet load and generation in both systems as well as
9 respecting all the transmission constraints that maybe in
10 either case we can use each other's resources in that way,
11 so that's what's critical. A lot of those functions have
12 now gone up to the RTO.

13 CHAIRMAN WOOD: Mr. Shalaby, in Ontario, I'm
14 trying to -- let me come back to that. I lost my question
15 that I had for you. Go ahead.

16 MR. RODGERS: Let me jump in with another
17 question. I think several of the panelists this morning had
18 mentioned that an RTO should have the ability to reclaim
19 authority to do certain functions of an ITC if the ITC were
20 not doing its job. In their view, these panelists' view,
21 that would probably not adversely affect the ITC's ability
22 to attract capital.

23 Are there any thoughts from the panel here on
24 that matter?

25 MR. GALLAHER: I have a thought about that. I'm

1 concerned that to give the RTO blanket authority to retake
2 any of the functions or responsibilities could be dangerous
3 from the standpoint of attracting capital and expansion of
4 an ITC. I think surely there has to be a monitoring
5 function over all of these entities and I see that
6 monitoring function, one, as a dispute resolution process
7 that will be a part of the RTO that is run by the RTO. If
8 that fails, then certainly the RTO is regulated as well as
9 the ITC by FERC so that you have that avenue in which to
10 address any concerns that you might have. But to just give
11 the RTO the blanket authority to take back those functions
12 without FERC oversight review and approval I think could be
13 detrimental to the attraction of capital to the ITC.

14 MR. KORMOS: A quick comment. Somebody mentioned
15 earlier I have scars on my back as well from trying to undo
16 sometimes poor designs so I would be very cautious about
17 that. It sounds so simple to say that, but in actuality,
18 trying to unwind something that's poorly designed, there are
19 winners and losers when you try to do that and it's not as
20 easy as just simply going over. And again I agree. I don't
21 think the RTO should have unilateral rights to take
22 something back. I think we need to put the thought up front
23 and try to get the design as close as possible to avoid
24 those battles later on.

25 MS. FERNANDEZ: I guess I'd like to ask some of

1 the panelists, perhaps Messrs. Falon and Gallaher first,
2 just sort of as a basic question. Both of you mentioned the
3 ability to attract capital and efficiency in planning. I
4 was wondering why you think an ITC would be better at
5 attracting capital or would lead to more efficient planning
6 than a vertically integrated utility.

7 MR. GALLAHER: I'm not sure it would lead to more
8 efficient planning than a vertically integrated utility, but
9 I'm of the opinion that for an ITC to be successful, and ITC
10 being just in the transmission business, it has to quickly
11 and effectively respond to its customers' needs. In order
12 to do that, it needs to have the planning function for its
13 footprint so that it can better meet its customers needs.
14 If it doesn't meet its customers' needs, it's not going to
15 be successful, and it will better be able to attract capital
16 for those expansions from which it has control over the
17 planning of, in my opinion, than one who has been dictated
18 to. Maybe that's too strong a word. But at least not as
19 actively involved in the planning.

20 Indeed, if the ITC proposes the plan, and it is
21 subsequently approved by its board of directors and the
22 oversight from the RTO approves, then it is in a much
23 stronger position or has much more motivation to actually
24 get out and get the plan done than perhaps one who does not
25 have that planning function.

1 MR. FALON: I guess I agree with Frank on many of
2 those issues. I would just add that in the vertically
3 integrated utility structure, the transmission department is
4 fighting for capital with all the other departments within
5 the company. To the extent that you have an ITC which is
6 focused solely on transmission, it can focus all its efforts
7 on maximizing the value of transmission and it would
8 probably be better to attract capital in that sense.

9 MS. FERNANDEZ: But when you're fighting within
10 the company for capital don't you have some sort of internal
11 rates of return that determine which ones get the capital?
12 Is it the ITC's corporate structure itself that would lead
13 to better planning?

14 MR. GALLAHER: The point that I'm making is not
15 really planning between an ITC and a vertically integrated
16 utility. It's really the planning between the RTO having a
17 planning function completely versus the ITC retaining some
18 of that planning function. I'm not sure that is as much a
19 question between an ITC versus a vertically integrated
20 utility; it's between an ITC and an RTO oversight function.

21 MS. FERNANDEZ: I have another question I'd also
22 like to ask since I have the microphone. Mr. Falon
23 mentioned that he thought an ITC could come up with
24 innovative services. I was wondering if you could give some
25 examples of those. If others have some ideas of what type

1 of innovative services ITCs could provide that wouldn't be
2 provided in more of an RTO like an ISO, or I guess if you
3 had an ISO that had vertically integrated utilities.

4 MR. FALON: One that comes to mind is around
5 let's say generation interconnections directly assigned
6 facilities. A company that's purely in the business of
7 transmission may offer innovative financing and products
8 around how you pay for that service, whereas what I was
9 saying earlier that you're fighting within the departments
10 from an internal rate of return standpoint, transmission is
11 just a small part of a bigger company, and they may not be
12 as willing to take that risk on an innovative product and
13 service. That's what I mean when I said about the ability
14 to attract capital. It was more directly related to the
15 ability to offer innovative products and services. We have
16 Duke Energy, a merger of a pipeline company and an electric
17 utility at our start. We have some pipeline people who have
18 come over, and they have very innovative ways of pricing
19 pipeline expansion, and they've tried to look at that and
20 how can we take that methodology and apply it to
21 transmission.

22 In a vertical integrated utility, we may not be
23 able to look at that, but under a pure transmission company
24 they may be more willing to come up with those innovative
25 products and services.

1 MR. PARA: I'd like to comment just if I could.
2 I think in fact the vertically integrated utility would have
3 more efficient planning I think. We decided that losing
4 that, going to a less efficient planning is a price we're
5 willing to pay in order to have truly open access and non-
6 discriminatory access to our transmission system. I think
7 it's a price worth paying, but I think it's a cost we need
8 to not kid ourselves that everything gets better. When you
9 split that up in a vertically integrated utility, you have a
10 very dynamic process between generation and transmission.

11 In the system we have here, it's not going to be
12 that closely tied together so it's going to be less
13 efficient. I think we'll end up with a better product but
14 it's going to be a less efficient process.

15 COMMISSIONER MASSEY: I hate to be a broken
16 record but I keep coming back to this issue of whether the
17 allocation of functions ought to leave room for the ITC to
18 increase throughput to make more money by increasing, by
19 driving throughput.

20 First of all, I wanted to ask any of you who
21 wanted to comment on that whether you think the ITC ought to
22 have the authority to do that? If so, what does that do for
23 demand resources?

24 If I'm an ITC and my incentive is to increase
25 throughput and I'm also in charge of planning, it would seem

1 to me that I wouldn't want more demand resources invested on
2 my system because that would decrease my throughput, so I'm
3 having trouble getting my arms around this increasing
4 throughput argument that is made. I'm not sure that anyone
5 on this panel made that argument, but you may have that in
6 mind, Mr. Gallaher for the Entergy transco operating within
7 SE Trans. Would it be one of your objectives to increase
8 throughput? If so, where does that leave investments on
9 your system that may actually decrease your throughput?
10 Anybody else that wants to comment on that as well.

11 MR. GALLAHER: Commissioner Massey, I think that
12 demand side resources will continue to play an important
13 part in this restructured industry. I'm of the opinion that
14 if indeed a transmission owner makes decisions that are
15 contrary to the interests of the customers, whoever the
16 customers may be, the ultimate customers which are customers
17 of the transmission system and everyone, if he pushes
18 decisions that are contrary to the interests of those
19 customers, he's not going to be successful.

20 I would agree that if throughput could be
21 increased but could be increased for the benefit of
22 consumers, that's something that should be done, while at
23 the same time giving the transmission company the
24 opportunity to increase its revenues at the same time. If
25 there are opportunities for demand reduction which may

1 reduce throughput but which may reduce that transmission
2 owner's capital requirements, that too may be valuable to
3 the transmission owner.

4 I'm of the opinion that throughput is important
5 and to the extent that it enhances the wholesale market and
6 the efficiency and effectiveness of the wholesale market,
7 then it is a proper role of the transmission company to do
8 that or to incent that.

9 However, if demand side resources are really in
10 the best interests of the consumer, then that transmission
11 owner ought to take that into consideration as well, and at
12 the same time could add value to transmission owners by
13 reducing capital requirements by resulting in making the
14 customers better accepting of the services that you provide
15 in all of those things.

16 COMMISSIONER MASSEY: Any other comments on that
17 point?

18 MR. SHALABY: An elaboration was offered this
19 morning that I support and that is it's increasing the
20 availability and the capability of interfaces and it's more
21 critical than throughput. It's being there all the time in
22 large capacity, and then consumers when they need it for the
23 delivery. The desirable outcome is deliver energy where
24 it's needed from the best places to generate it. How it
25 gets there is a secondary objective. Just having the

1 different bridges available all the time in high capacity,
2 that is the measure rather than throughput I think.

3 MR. KORMOS: If I could just comment, I'll be
4 real quick. This is an excellent example of the way you can
5 do things financially which maybe aren't classically thought
6 as throughput. Throughput is normally considered out and
7 through. I agree as we go to larger markets, that becomes
8 irrelevant. Everything is internal at that point, and at
9 that point throughput is really then just congestion. The
10 availability of the system, how much congestion is on the
11 system, and I think this is a classic area where an ITC
12 could add value.

13 As an ISO-RTO, we are limited in how much
14 financial rights we can guarantee to protect against
15 congestion. Our number one concern is to make sure the
16 person getting that right is fully protected, so we have to
17 take some relatively conservative views as to the
18 performance of the transmission system. Otherwise, if the
19 system doesn't perform, we would be revenue short. We would
20 not be able to hedge these people fully against congestion.
21 That's an area where a transmission owner, who doesn't need
22 to be an ITC in my opinion can step in and be willing to
23 accept that risk that they will guarantee the performance of
24 their system the throughput minimizing congestion where they
25 can look at things as scheduling their maintenance, working

1 five shifts instead of two. All those things are well
2 within their control to make sure they minimize congestion
3 as much as possible. But it's done financially. They've in
4 fact protected the consumer against congestion for a price
5 and for that price they're willing to adjust their
6 maintenance, potentially make investments into their system
7 to hedge themselves even more.

8 To answer your question, it would compete with
9 demand response but I think it's what you want because
10 ultimately we need to know the best answer, and if the best
11 answer is paying somebody to shift maintenance and move that
12 versus paying load to get off the system, that's what we
13 want. I think we need to find ways to actually get them to
14 compete against each other so we know we're doing the most
15 effective thing and not necessarily guessing.

16 So I think again there are definitely ways if we
17 look at throughput a little bit differently, more in
18 financial terms, at least in our model, where these things
19 can really work and will work. I don't think they need the
20 functionalities that are described in a lot of the
21 documentation.

22 MR. RODGERS: Commissioner Brownell?

23 COMMISSIONER BROWNELL: I'd like to go back to a
24 statement that you made, Mr. Para, just to make sure that I
25 understand it. If I do, I'm going to follow up with some

1 questions about clarification, at least in the northeast.
2 If I understood you correctly, you said that planning under
3 the RTO/ISO/ITC model was inherently less efficient although
4 it may end up with a better product. Is it true under all
5 of those models? Some of those models? Combinations of
6 those models? I just want to be sure I understand the
7 statement.

8 MR. PARA: I said under all of those models. I
9 said when you take away planning for the generation, don't
10 allow that as a part of your overall planning. Then you're
11 inherently going to be less efficient in your planning.

12 COMMISSIONER BROWNELL: Could I ask you, Mike and
13 you, Kevin, to comment on that because my impression from
14 what's going on in the planning process at PJM in New
15 England is the participants in fact view it as more
16 efficient and integrated than in the past. I'd just like to
17 understand that.

18 MR. KORMOS: It is definitely more efficient in
19 that you can look at it on a regional basis. You can be
20 looking at the much greater picture. We found ways to solve
21 problems on one person's system by making upgrades on
22 somebody else's system. That really does increase the
23 efficiency. Mr. Para's point should be well-taken though,
24 that in the old utility role, vertically integrated
25 utilities used to do integrated resources where you could

1 effectively weigh building generation, building upgrading,
2 transmission or offering demand response and one company
3 could look at all those options.

4 I think the challenge is how do we mimic that in
5 competitive markets. We've deregulated the generation side.
6 I think once you've let the genie out of the bottle, it's
7 gone. Generation is now no longer a mix for most areas of
8 the company, they are now independent. We do have to come
9 back to how do we make sure in the regional planning that we
10 are allowing transmission to be competitive. That's where I
11 go back to understanding the business model. How they can
12 be competitive in solving congestion along with generation
13 and load response, and then in regional planning find ways
14 to mimic what would have happened under integrated resource
15 planning. I think we can. I think we still have work to do
16 that maybe the key point of it, one of them, is demand side
17 response. We're working diligently on that but the other
18 side is how do we incent transmission to come to the table
19 with their solution and be competitive in the market.

20 COMMISSIONER BROWNELL: Do you think you've found
21 at least part of that solution in the PJM planning process
22 now? And if not, what's missing? Although I must confess,
23 I didn't see a lot of demand side under the old model
24 either.

25 MR. KORMOS: I must confess that's true too. I

1 think we're well on our way to being there. I would never
2 say we are happy where we're at. We do, and again we would
3 like to at least start to do things with Allegheny as an ITC
4 as to looking for the transmission solution, seeing how we
5 can inject, using financial rights and pricing for
6 transmission to also be participating more credibly in that.
7 Right now, it's mostly just a backstop for reliability.
8 We'd like to see them be competitive solution providers as
9 well.

10 MR. KIRBY: Just commenting on I think the
11 efficiency of the integrated planning process within the
12 footprint of that particular company was more efficient
13 because all the decisionmakers were in the same company.
14 But where the advantage is of the more regional approach, as
15 we've seen in New England over many years actually, through
16 the NEPOOL process, where the individual transmission
17 companies did come together and coordinate their planning.
18 We also saw a larger region for the transfer of energy where
19 the exchanges that might happen on the transmission system
20 in New England might affect New York or Ontario and vice
21 versa. And bringing together this more robust regional
22 planning process over the wider region brings in the
23 advantages of coordinated planning over that larger expanse
24 for a better transfer of energy. But you do lose the
25 certainty of the decisionmaking all coming to one place and

1 you have added uncertainties relative to economic comings
2 and goings, if you will, of generation where older
3 generation might be displaced by newer in the transmission
4 system than trying to anticipate those decisions which are
5 much less certain today than they were in the older
6 environment.

7 MR. GALLAHER: Commissioner Brownell, if I might
8 just comment very briefly about that. I think Mr. Para is
9 right relative to right now on efficiency of planning, but
10 once we have a market-based congestion management system in
11 place, like financial rights model using locational marginal
12 pricing, then I think we will overcome that inefficiency if
13 the proper signals will be sent to both transmission
14 planners as well as generation planners, who are now
15 separate, to do the right thing from an economic standpoint.

16 MR. PARA: Could I just comment that sending the
17 correct transmission pricing signal to the generator is a
18 difficult issue that I'm not convinced that we've fully
19 addressed. I'm not sure we yet have a pricing in place that
20 can send the right signals to the cost of the transmission
21 to the generator. We're working hard on those things.

22 MR. RODGERS: Kevin?

23 MR. KELLY: A question for Mr. Falon, Mr.
24 Gallagher. I was paying attention to Mr. Kormos saying
25 earlier it's hard to separate market and transmission

1 functions. I was thinking of how using LMP may set up a
2 market for managing congestion on the transmission system,
3 but the way to overcome the congestion, if that's chronic,
4 is going to have to be to build new transmission. Both Mr.
5 Falon and Mr. Gallaher said that the RTOs can do many
6 things; it's the ITCs that should engage in planning and
7 rates.

8 I had a worry frankly that where congestion fees
9 are high, and it takes some transmission construction to get
10 rid of the congestion, that if the local planning is what's
11 required to overcome the congestion, that it either may not
12 get done to the satisfaction of all the parties in the
13 larger reason, or it may come at a high price. I think Mr.
14 Gallaher put it, we may need incentives and PBR filing
15 authority. Else we may not have the authority to expand the
16 transmission.

17 Could this be a situation if you pay me through
18 congestion rates or you pay me through a higher expansion
19 fee? That's maybe a general thing to comment on but let me
20 actually get to a specific question. That is, you said you
21 wanted authority over local area planning, and the question
22 is, what is local? It would be easy for me to understand
23 that if you need to ship power into a city by building a 20-
24 mile transmission line to basically shore up what's a
25 distribution function at high voltage of getting power in,

1 that's fairly local. But sometimes you need to build a 20-
2 mile transmission line, I'll pick on Mr. Gallaher, saying in
3 the Entergy area, in order to facilitate the shipment of a
4 lot of gas-fired generation located in the Entergy footprint
5 or west of Entergy up to the midwest, the total transaction
6 may be going hundreds of miles. But the needed transmission
7 line is quote, local, unquote; it's only 15 to 20 miles
8 long.

9 Let me stop there. I think I've posed the
10 question.

11 MR. GALLAHER: In your example, if you were given
12 an example of a generator located in Entergy's footprint
13 that needs the transmission built, I think that's exactly
14 one of the things an ITC can do. And in this case, it would
15 improve throughput but at the same time help those customers
16 in the Midwest who perhaps can get access to that generation
17 in Entergy's footprint at a lower price. So it would be
18 incumbent upon the ITC and perhaps the ITC would even
19 recognize that if this line was built, it would enhance this
20 generator's ability to get to the markets in the midwest, so
21 the ITC may well go to the generator and propose some
22 construction in return for financial rights to whatever was
23 being constructed in order to allow that generator access to
24 the Midwest or if the generator discovered that that's what
25 he needed, he would work with the ITC and I would include

1 that as local planning, it's local planning, but really
2 anything that's needed within the footprint of the ITC in
3 order to enhance the wholesale markets.

4 MR. KELLY: If the local planning -- and Mr.
5 Falon please join in -- if the local planning is done by the
6 ITC and I don't mean to imply Entergy here, but if it's done
7 by any ITC in a way that doesn't satisfy the needs of a
8 larger region, part of which may be encompassed by an RTO,
9 should the RTO have some rights to come in and basically
10 call the shots on what gets built, or the level of incentive
11 rates that would be required to get it built?

12 MR. GALLAHER: Again, the RTO would have the
13 authority to order TOs and ITCs to build, so if the RTO had
14 identified a project that was needed to enhance the market
15 within its entire region, and that construction was within
16 the ITC, it has the ability to order that ITC to build. But
17 even above that, the RTO has overall coordinating of
18 planning for its entire region, and certainly whatever the
19 ITC came up with in its plan, it is fed into the RTO's
20 regional plan and to the extent that it is not compatible
21 with that plan, the RTO would come back to the ITC relative
22 to the problems that it might be causing the whole region.

23 MR. KELLY: Could I summarize that fairly by
24 saying that an ITC would build whatever the RTO directs plus
25 whatever is needed locally so it's the sum of the two?

1 MR. GALLAHER: I think that would be a reasonable
2 inference to make.

3 MS. FERNANDEZ: Could I ask sort of a follow-up
4 question? If you have a generator that wants to go through
5 an area where there's an ITC or an RTO, I guess in your
6 answer you seem to be suggesting that if the generator
7 wanted to do that, they may be able to do that, but the ITC
8 may take a position in that. Would the generator be able to
9 basically get the expansion built if it paid the cost? Or
10 would other merchant transmission lines be able to come in
11 and build in competition with the ITC?

12 MR. GALLAHER: One of the principles that we are
13 promoting is the ability for generators to work with
14 transmission owners, be those continue to be integrated or
15 ITCs to propose projects that indeed it may pay for, and in
16 return receive property rights in the form of FTRs, and
17 thereby enhance its ability to transfer its power to another
18 location.

19 MS. FERNANDEZ: Whether or not the ITC was in
20 fact an investor?

21 MR. GALLAHER: That's correct.

22 MS. FERNANDEZ: If the generator found someone
23 else that wanted to build a line, rather than the ITC, would
24 they be able to do so?

25 MR. GALLAHER: Under the existing rules of FERC,

1 I think that that is correct.

2 MR. RODGERS: Any other questions?

3 (No response.)

4 CHAIRMAN WOOD: I guess to close out the day, I
5 want to thank this high dollar panel and all the other three
6 high dollar panels. This issue is really important. It's
7 one Bill and I kind of broached in my early days here. I've
8 got a heck of a lot smarter on this as a result of
9 particularly today. You're right, Michael, we didn't ask
10 that question probably in the right order. But if it helps
11 you any, we did get throughout the day an answer to the
12 question about what is it they really want to do. It might
13 not be a bad one to get some written comment particularly
14 from the folks at the National Grid, and I think Frank you
15 fleshed it out certainly over the years about what is it an
16 ITC would bid.

17 We've got some questions to get that out, but
18 what is it that an ITC needs in the way of authority to make
19 itself into a viable business? I've gotten a lot more
20 clarity on that. I do think one of the things that fell out
21 of this, including this last question. I'm not as vexed by
22 the whole planning issue. I just think it is such a
23 visible, such a public, such, I mean to quote Mr. Delgado,
24 there's so many obstacles against adding a new transmission
25 line, particularly on new rights-of-way where the state

1 citing authority has the ultimate veto anyway. That's not
2 one that keeps me up at night worrying about, oh, gosh, have
3 we given too much because it is a) tiered and b) it's so
4 visible in public that that's not a big issue. I think the
5 rate issues are certainly worth following up on. I note
6 from my notes, Amir, that your issues were transmission
7 planning, transmission rate design and performance and some
8 third thing called backstop.

9 Anyway, the planning issue is not a big one that
10 bugs me a lot. What does bug me I guess is I want to make
11 sure that we hit that balance on the congestion management
12 issue rather than just managing congestion, that we actually
13 do something about it. I'm not in the camp that's neutral
14 about congestion. If we had four lane highways on the
15 transmission grid everywhere in the country, I guess at this
16 point, I'd say we ought to start being religiously neutral
17 about these things. But certainly between historic control
18 areas and between what are the evolving RTO boundaries,
19 there are not what I consider robust interconnections that
20 allow a wholesale market to really, I think, the first one
21 this morning, Nick Winsor talked about that incremental
22 competition out there on the margin. It only works if
23 that's the biggest possible universe of participating
24 generators and other resources as we can get.

25 So please don't mark me down as being a neutral

1 person on whether we need to just manage congestion or
2 actually eliminate it through some investment. I am
3 interested still in knowing what it is that specifically
4 Wall Street needs to make these good investment vehicles,
5 but I got a good sense from you guys at least who are
6 proposing these things through the last four panels today, a
7 good sense of that. I think in my mind certainly, ITCs
8 should have a role in many of these functions we've talked
9 about. I think when you kind of start from the presumption
10 that the RTO the umbrella, the RTO is where it starts, and
11 that that should be encouraged to be devolved as appropriate
12 to the person closest to fixing the problem. I think that's
13 certainly a pretty healthy place. It doesn't seem like if
14 we played the attachment B game that we would get a whole
15 lot of variation on these issues, but I'm open to being
16 persuaded otherwise.

17 I'm one of those guys that looks for the
18 opportunity to compromise that makes sense, and it seems
19 like there's a lot of potential for that here. So I'm
20 pretty hopeful actually that ITCs, a robust ITC work plan is
21 in the offing here. It's constructive to hear the very
22 diverse views over the day but diversity doesn't mean
23 dissention. I didn't hear a lot of dissonant voices on this
24 and I hope we can get the details clarified over the coming
25 weeks as we are faced with some proposals. That's my

1 reaction to what I heard today and again, thank you folks
2 for your time and your thoughts and your good efforts, all
3 of the panels today, and good staff work too.

4 MR. RODGERS: Just to close, I'd like to also
5 reiterate the Chairman's comments thanking all the panelists
6 today for coming and I wanted to mention as well that
7 interested parties can file comments on the conference
8 subject matter in Docket RM01-12 if you choose to do so.
9 Please identify specifically the region or regions that your
10 comments address and cross file those comments with any
11 other appropriate RT dockets, and those comments should be
12 filed by March 12th.

13 Thank you very much.

14 (Whereupon, at 4:55 p.m., the Conference was
15 adjourned.)
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